Current Economic Issues

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Preface

This book discusses some important current economic issues, such as: economic globalization. Economics of privatization, e-government, sustainable development, environment and poverty, international trade agreements, problems of small and medium size enterprises in the developing countries. These issues occupy a high priority on the international, regional, and domestic levels.

The first part of this book is written by professor El-Sayeda Moustafa. She covers the first fiver chapters of the book. The rest of the chapters (from six to eight) are written by professor Abd El-Kader M. Attia.

This book is written in a very easy language that can be easily understood by Non - English native tongue students.

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Dr. El-Sayeda Moustafa

Contents

Chapter 1	:	Economic Development, the Environment and Possibilities for Sustainable Development.......	1
Chapter 2	:	Poverty and Sustainable Development	15
Chapter 3	:	Industrial Development and the Environment...	39
Chapter 4	:	International Trade Agreements and its Effect on the Arab Economies..............................	61
Chapter 5	:	Trade – Related Finance and Insurance Problems Facing the Small and Medium Size Enterprises in Egypt..................................	85
Chapter 6	:	Economic Globalization.............................	111
Chapter 7	:	Economics of Privatization..........................	147
Chapter 8	:	E-Government..	171

Chapter 1
Economic Development, the Environment and Possibilities for Sustainable Development

I- Introduction:

One of the most important features that characterize the past century - 20th century - is the great economic development that took place in the western world that we call today the Industrial Developed Countries (IDC), which include USA, Canada, Japan, Australia, and the Western European countries. That economic development was based on a very strong growth in a wide sector of manufacturing and industrial products. That development had evolved with the progress of what is known as "industrial revaluation". It came in a period of relative abundance of natural resources in the world, specially the fossil fuel energy sources. That period also was described by its unlimited intensive use of environmental factors such as air, water, and land resources. Those environmental factors were not only used as cheap sources of very essential factors of production, raw materials, and intermediate products for any production process, but they were also utilized as waste-disposal receivers of all sorts of waste (solid, gas, and liquid) that accompanied the production as well as all human activities.

Meanwhile, the fast growth of the world's population that accelerated through the past century, has loaded more pressure on the use of environmental factors. That type of intensive utilization of the resources and the environment was the main cause behind the current high levels of environmental pollution around the globe.

Accordingly, the fast growth of the standards of living, population, output per capita and urbanization did not come free of charge, but it had its high toll in terms of the environmental degradation, not only in the industrial developed countries, but also in many other places in our globe. For instance, the globe has witnessed - during the past two decades - a high level of concentration of many harmful gases in the atmosphere such as: "carbon oxide", "carbon dioxide", "nitrogen", "sulphure dioxide", "particulates", "clorofloro carbons", and others. Scientists predict that the high level of concentrations of those gases that are usually called "Green House Gases" will have very serious negative effects on the temperature of the globe, e.g., "global warming" (*World Watch Institute, 2000*).

Many economic problems are usually affiliated with that global warming, such as:

- The increase of desert areas, i.e., "desertification".

- The decline in "forest" stock, i.e., "deforestation".
- The decline in food production in many areas that once was very generous such as USA, that is in addition to Africa.
- A wide spread of floods in several parts of the world.
- The rise of sea and ocean water level in several parts of the world, and other negative externalities.

Fast and wide industrial growth have also contributed to the deterioration of fresh water quality around the world to the extent that some of these resources is considered now harmful for any use by human, animals, fishery or any sort of production activities. Add to this, the damaging effects of what is known as "acid rain" on soils, forests, buildings, monuments, biodiversity, and others (*OECD, 1999*).

Above all, we can not ignore the increasing stock of "solid waste" and "hazardouse waste" in many parts of the earth. Such waste spreads its negative externalities, not only human beings' health but also on the safety of underground water and many species.

The pattern of economic development that prevailed in the western developed countries heavily reckoned on both of the intensive use of fossil energy sources (oil, coal, and

natural gas) and the inefficient heavy use of other natural resources. Many economists foresee that such pattern of development can not continue in the future, because if it does - it would certainly destroy the production capacity of the earth, the environment and the human resources as well. That was the starting point that initiated the concept of "sustainable development" (SD) two decades ago. That concept is currently used as a substitute for the traditional concept and objective of "economic development" and its various strategies. So, what do we mean by "sustainable development"? This is what we will try to answer in the following sections.

II- Definitions of "Sustainable Development":

Many definitions of (SD) have been cited in the economic literature. Some of those definitions are often incompatible with each other. We present here three of those definitions, with close focus on the third one:

(1) The famous economist "Robert Solow" has defined sustainability in 1991 as "to leave the future capacity as well as we are" (*Stavins, 2000*). He emphasized the fact that when talking about sustainability, we have to account for not only the resources that we use up and leave behind, but also the sort of the environment we leave behind, including the productive capacity (plants and equipments, for instance) as well as technology and

knowledge. Accordingly to Solow, (SD) becomes a problem of savings and investment, i.e., it is a problem about current and future consumption.

(2) The University of Oregon in the United States has developed a definition of (SD) (*Duncan, 2001*) and used it in some of its researches. According to them, SD is to use, develop and protect the materials at rates that help the people to satisfy their current needs, taken in consideration that future generations would also be using those materials in satisfying their own needs. Therefore, (SD) requires the simultaneous achievement of environmental, economic and social requirements for development.

(3) The "World Commission on Environment and Development" gave a definition of (SD) in 1987 that is considered one of the most publicized definitions of (SD) in the world. The commission defined (SD) as: "development that meets the needs of the present generations without compromising the ability of future generations to meet their own needs "(*Turner et. al. 1994*)."

So, according to this definition, both social and economic development must be undertaken in such a way as to minimize the effects of different activities on resources sources and waste disposal sinks, whenever the costs are borne by future generations. When currently vital activities

impose costs on the future (such as in case of mining of non-renewable resources) full compensation must be paid to future generations in various forms such as new technologies that allow finding substitutes and increasing economic efficiency of resources use.

The commission hilighted that (SD) must allow for an increase in the people's standard of living with particular emphasize on the well-being of poor people, while avoiding uncompensated and significant costs on future generations.

This definition of (SD) is accepted by groups of economists who seek economic development and by scientists who advocate the idea of environmentalism. That concept of sustainable development is used now as a preferred replacement for economic development or growth.

III- The Conditions for (SD):

We may ask now, what are the conditions that are considered necessary and sufficient for achieving (SD)? To answer such question is to determine how to compensate the future generations for the damage that we cause to production capacity, resources and the environment by our current social / economic activities. Economists see that the only way to achieve such conditions for (SD) is through the transfer of capital bequests. This implies that current generations ought to make sure to leave a stock of capital for future generations no less than what current generation

has. In other words, (SD) indicates leaving a similar or better legacy of resources to the next generation. How? The accumulation of capital generates the capability to sustain well-being through the creation of various goods and services. Capital stock that should be accumulated and augmented includes both:

a) Physical capital stock, and

b) Natural capital stock that cannot be substituted for by man-made physical capital, such as ecosystems and other ecological assets that are essential for human well being (landscape, space and relative peace and quiet). This is exactly what Robert Solow pointed to us as the sort of surrounding environment we leave behind.

Achieving such requirements mean that things can not be left entirely to the market forces to determine. Why? Because the future is not adequately represented in the markets. Public policies, taxes, subsidies and regulations could be used, in principle, to correct for the current excessive use of the resources and the environment. If we leave the matters entirely to market forces, every producer and consumer will just try to maximize his own benefits (profits, utility, ... etc.) by damaging the environment and let cost to be borne by others. So, we can not avoid the "free-riding" problem and the negative externalities on current as well as on future generations. Therefore, public policies should be directed for protecting the rights of future

generations. So, when we use up something that is irreplaceable (fish species, environmental amenity, or others) we have to provide a substitute of equal value for future generations. Those substitutes do not have to be physical objects, but could be in the form of new technologies and knowledge. Also, when you consume some of the stock of depletable resources, you are obliged to invest part of its revenues in some sort of investment for enhancing future capacity.

By definition, (SD) states that the economy must invest at least as much as the sum of the depreciated value of man-made and natural capital (*Pearce and Alkinsan, 1992*). If we try to find a business analogy for such idea we say: if our business consistently failed to save enough to reinvest in replacing depreciated capital, it will not be sustainable as it wears out its capital. The same is true for the economy, to achieve (SD) its national servings ratio must be greater than or at least equivalent to the depreciation rates in the overall capital stock (physical and natural).

At the time being, unfortunately, our national accounting system fails to treat natural capital as an asset which plays a vital role in providing a flow of output/income over time (*UNEP and DEIA, 1996*). Therefore, extended national accounts, or "green national accounts", are required in order to improve policy signals

relating to (SD). Such green accounts are usually not restricted to market-based calculations of national output, national income and national expenditure, but rather, should take into consideration certain measures to internalize the non-accounted for types of cost of production, such as externalities and the environmental degradation costs. So, two sorts of adjustments are required:

a) One for the depreciation of the natural capital (changes in quantity).

b) Another for the degradation of the natural capital stock (changes in quality).

At the time being, a framework to reflect the use of natural resources at the national level is in the process of being applied by the United Nations Statistical Office. However, it is hard to discuss either the theory or the practice of making such adjustments in this chapter.

IV- Operational Principles for (SD):

Economists outline a number of rules for the sustainable utilization of the natural capital stock. Those principles are summarized in the following:

(1) Correction for market and government failures related to resource prices and property rights is a must.

(2) Maintenance of the regenerative capacity of renewable capital, i.e., the use rates should not exceed regeneration rates.

(3) Avoidance of excessive rates of environmental pollution which could threaten waste assimilation capacities and life support systems.

(4) Stressing technological development needs that foster the switch from using non-renewable resources to renewable substitutes, and increase economic efficiency.

(5) Avoidance of overusing renewable natural resources and promoting recycling technologies.

(6) Keeping the overall scale of economic activities within the carrying capacity of the remaining natural capital. Accordingly, a precautionary approach should be adopted with a built – in safety major.

How exactly such operational principles could be translated into actions and policies? That will be the job of the economic and environmental policy makers in each country. But in general, sustainability must originate from a bottom – up adoption of policies, programs and projects that seek reducing environmental degradation, while working on improving different aspects of human wellbeing. According to the "Organization for Economic Cooperation and Development" sustainable environmental management is

essential for long-term economic growth and wellbeing (*OECD, 1998*). Therefore, formulating a "national sustainable development strategy" should be the first step in planning for (SD). That national initiative ought to be supported by technical and financial means to:

a) Describe the country's environmental concerns.

b) Identify the main causes of the problem.

c) Formulate policies to tackle those problems.

d) Recommend practical actions to address the problems and implement the policies.

V- "Agenda 21" for (SD):

At the United Nation Conference for Economic Development (UNCED) in Rio-De- Janeiro in Brazil in 1992, governments made a commitment to a program of action called "Agenda 21" to support sustainable development worldwide. In 1997 delegates from more than 165 countries adopted the program for further implementation of "Agenda 21". Year 2002 was set as a date to complete the formulation and elaboration of national strategies for sustainable development in the countries of interest. The "World Summit for Sustainable Development in Johannesburg in South Africa in 2002 – what is known as "Rio + 10," was held to review that progress and recommend further actions.

The emphasis of "Agenda 21" is on adopting (SD) as a strategy for combining ecological, economic and social concerns, rather than simply pursuing a path of economic growth. This strategy necessitates a through knowledge and evaluation of environmental costs of development strategies (*ESCWA, 1998*).

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Chapter 2

Poverty and Sustainable Development

I- Introduction:

One may ask: are developing countries different when it comes to pursuing the target of sustainable development? The immediate answer is yes. There are obvious senses in which developing countries differ from developed countries. In general, the economic development level, when measured by per capita GDP[*] in real terms, is very much different in those two groups of countries. The percentage of population who live in poverty in developing countries is usually much higher than what prevails in the developed economies.

II- How Do We Define "Poverty"?

Poverty is a relative concept, where people are only poor relative to others. Traditionally, poverty is defined by describing some "minimal acceptable physical standard of living" that people ought to enjoy in order to survive. Those whose incomes are insufficient to guarantee that minimum

[*]Per capital GDP may not be the best indicator to use in comparing levels of economic development. It may suffer many sources of baseness in that respect. However, we use it because it is the most widely used indicator with sufficient data series.

consumption package of goods and services are considered poor people. Of course, with this definition in mind we can find many "poverty threshold" levels as there are opinions on what constitute minimal standard of living. Later on, perspectives had shifted and poverty was defined as the deprivation of material requirements needed for minimally acceptable fulfillment of human needs that include not only food, but also the need for basic health and essential services.

The "poverty line" used by the World Bank is one American Dollar per day ($ 1 / day) in real terms (*World Bank, 2001*). It measures the amount of goods and services that can be obtained using one American dollar after accounting for differences in foreign exchange rates. A quick look at table (1) below reveals the share of population who are characterized as very poor – (less than one dollar per day) - in six different regions of the world, all characterized as being developing countries. Box (1) indicates the countries included within each of those regions according to the World Bank common geographic division.

Table (1)
Income Poverty by Region
Selected Years (1987 – 1998)

The region	Share of population living on less than $ 1/day (%)				
	1987	1990	1993	1996	1998
East Asian and Pacific	26.6	27.6	25.2	14.9	15.3
Europe and Central Asia	0.2	1.6	4.0	5.1	5.1
Latin America and Caribbean	15.3	16.8	15.3	15.6	15.6
Middles East and North Africa	4.3	2.4	1.9	1.8	1.9
South Asia	44.9	44.0	42.4	42.3	40.0
Sub-Saharan Africa	46.6	47.6	49.7	48.5	46.3

Source: The World Development Report (2001).

Box (1)
Regional Division of Developing Countries

The country composition of regions is based on the World Bank's analytical regions and may differ from common geographic usage.

East Asia and Pacific:

American Samoa, Cambodia, China, Fiji, Indonesia, Kiribati, Korea, Dem, Rep., Lao PDR, Malaysia, Marshall Islands, Micronesia, Philippines, Samoa, Solomon Islands, Thailand, Timor-Leste, Tonga, Vanuatu, Vietnam.

Europe and Central Asia:

Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungar, Isle of Man, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania,Macedonia, FYR, Moldova, Poland, Romania, Russian Federation, Slovak Republic, Tajikistan, Turkey, Turkmenistan, Ukraine, Uzbekistan, Yugoslavia, Fed. Rep.

Latin America and the Caribbean:

Antigua and Barbuda, Argentina, Barvados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Gyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, Venzuela, RB

Middle East and North Africa:

Algeria, Djibouti, Egypt, Arab Rep., Iran, Islamic Rep., Iraq, Jordan, Lebanon, Libya, Malta, Morocco, Oman, Saudi Arabia, Syrian Arab Republic, Tunisia, West Bank and Gaza, Yemen, Rep.

South Asia:

Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka

Sub-Saharan Africa:

Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Dem. Rep., Congo, Rep., CÔte d'Ivoire, Equatorial Guinea, Eritrea, Ethiopia, Gabon, The Gambia, Ghana, Guinea, Guinea Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mayotte, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Swaziland, Tanzania, Togo, Uganda, Zambia, Zimbabwe.

Source: World Bank (2003).

Box (2) lists the different groups of countries by income group, i.e. according to GDP/capita measure, while box (3) list those countries.

Box (2)
Income Groups of Countries

For operational and analytical purposes the World Bank's main criterion for classifying economies is gross national income (GNI) per capita. Every economy is classified as low income, middle income (subdivided into lower middle and upper middle), or high income. Low-and middle-income economies are sometimes referred to as developing economies. The use of the term is convenient; it is not intended to imply that all economies in the group are experiencing similar development or that other economies have reached a preferred or final stage of development. Note that classification by income does not necessarily reflect development status.

Low-income economies are those with a GNI per capita of $745 or less in 2001.
Middle-income economies are those with a GNI per capita of more than $745 but less than $9,206.
High-income economies are those with a GNI per capita of $ 9,206 or more.

Source: World Bank (2003).

Box (3)
Listing of countries by income group

Low income group of countries includes:	Chad	India
Afghanistan	Comoros	Indonesia
Angola	Congo, Democratic Republic of	Kenya
Armenia	Congo, Republic of	Korea, Democratic Republic of
Azerbaijan	Cote d'Ivoire	Kyrgyz Republic
Bangladesh	Eritrea	Lao, People's Democratic Republic
Benin	Ethiopia	Lesotho
Bhutan	Gambia, The	Liberia
Burkina Faso	Guinea	Madagascar
Burundi	Georgia	Malawi
Cambodia	Ghana	Mali
Cameroon	Guinea-Bissau	Mauritania
Central African Republic	Haiti	Moldova

Mongolia	Bosnia and Herzegovina	Papua New Guinea
Mozambique	Bulgaria	Paraguay
Myanmar	Cape Verde	Peru
Nepal	China	Philippines
Nicaragua	Colombia	Romania
Niger	Costa Rica	Russian Federation
Nigeria	Cuba	Samoa
Pakistan	Djibouti	Sri Kanka
Rwanda	Dominican Republic	St. Vincent and the Grenadines
Sao Tome and Principe	Ecuador	Suriname
Senegal	Egypt, Arab Republic of	Swaziland Syrian Arab Republic
Sierra Leone	El Salvador	Thailand
Solomon Islands	Equatorial Guinea	Tonga
Somalia	Fiji	Tunisia
Sudan	Guatemala	Turkey
Tajikistan	Guyana	Vanuatu
Tanzania	Honduras	West Bank and Gaza
Togo	Iran, Islamic republic of	Yugoslavia, Federal Republic (Serbia/Montenegro)
Turkmenistan	Iraq	**Upper Middle Income group of countries include:**
Uganda	Jamaica	American Samoa
Ukraine	Jordan	Antigua and Barbuda
Uzbekistan	Kazakhstan	Argentina
Vietnam	Kiribati	Bahrain
Yemen, Republic of	Latvia	Barbados
Zambia	Lithuania	Botswana
Zimbabwe	Macedonia, Former Yugoslav Republic of	Brazil
Lower Middle Income group includes	Maldives	Chile
Albania	Mali	Croatia
Algeria	Marshall Islands	Czech Republic
Belarus	Micronesia, Federated States	Dominica
Belize	Morocco	Estonia
Bolivia	Namibia	Gabon

Grenada	High Income groups of countries include:	Italy
Hungary	Andorra	Japan
Isle of Man	Aruba	Kuwait
Korea, Republic of	Australia	Liechtenstein
Lebanon	Austria	Luxembourg
Libya	Bahamas, The	Macao, China
Malaysia	Belgium	Monaco
Malta	Bermuda	Netherlands
Mauritius	Brunei	Netherlands Antilles
Mayetta	Canada	New Caledonia
Mexico	Cayman Islands	New Zealand
Oman	Cyprus	Northern Mariana Islands
Palau	Denmark	Norway
Panama	Faeroe Islands	Portugal
Poland	Finland	Qatar
Puerto Rico	France	San Marino
Saudi Arabia	French Polynesia	Singapore
Seychelles	Germany	Slovenia
Slovak Republic	Greece	Spain
South Africa	Greenland	Sweden
St. Kitts and Nevis	Guam	Switzerland
St. Lucia	Hong Kong, China	United Arab Emirates
Trinidad and Tobago	Iceland	United Kingdom
Uruguay	Ireland	United States
Venezuela, Republica Bolivariana de	Israel	Virgin Islands (U.S.)

Reviewing the information summarized in table (1) reveals the following facts:

(1) Sub-Sahran Africa is the worst region in terms of the share of poor people, followed by South Asian countries.

Over 40% of the population in these two regions live on less than $ 1 per day.

(2) East Asia and the Middle East and North African countries had witnessed a reduction in the percentage of population who are characterized as poor.

(3) The Middle East and North Africa region looked relatively better than the rest of developing countries throughout the 1990s. However, we think that the data gives some kind of illusian. That region includes some oil rich countries such as Iran, Saudi Arabia, Iraq and Algeria. The high standard of living in those countries reduces the average percentage of poor people in the entire region and made it look very good. For instance, in Egypt, people who were living below that poverty line in year 2000 was about 3% of the population, while the percentage of population who survived with less than $ 2 a day during the same year was about 43.9% (*World Economic Report, 2001 and 2005*). Other sources of biasness may be built in that data. For instance, it ignores the social relations and solidarity that exist among family members in many countries of that region.

(4) Poverty conditions, measured by income, got worse in the Central Asia and Sub-Saharan Africa region. Some

political, economical, as well as climatic reasons could explain such a deterioration.

III- Non-Money Metric Measures of Poverty and Economic Growth:

According to income poverty line today close to one fifth of the world's population survive on less than $ 1/day. As the country becomes richer, on average, the incidence of income poverty falls. However, there are other non-money metric measures of human well-being and standard of living that tend to improve with economic growth such as:

1- *Health conditions*. It is measured by several indicators that include among them:

- Public expenditure on health services as a percentage of the country's GDP.
- Infant mortality rates.
- Life expectancy.
- Nutrition levels.
- Access to safe drinking water and sanitation.

2- *Level of education*. It could be measured by a group of indicators that includes among it:

- The public expenditure on education as a percentage of GDP.

- Net enrollment in primary as well as in secondary schools.
- Illiteracy rates.

3- Quality of the environment.

4- Participation in national elections.

There are evidences that those indicators improve with the level of the country's economic development. For instance, in poor countries about 20% of live born children die before their fifth birthday. This ratio drops to less than one percent in rich developed countries. Meanwhile, in the poorest countries, as many as 50% of the children under five years old are mal-nourished, this ratio drops to less than 5% in rich developed countries. However, there exist some striking deviations from those averages. For instance, in the USA, the life expectancy of the African American is about the same as that in China and in some States in India.

IV- The United Nations Measures of Poverty:

To overcome some of the shortcomings in any single measures of poverty, the UN has developed some composite measures of poverty, as well as of human development. The composite measure of poverty, which is called "Human Poverty Index" (HPI), combines a number of money metric

and non-money metric indicators to form one "index" number.

Both of the (HPI) and the "Human Development Index" (HDI) are widely used to measure the average level of deprivation (by HPI) or the average level of human development achievement by (HDI). Some of the indicators used are common in the two indices.

Table (2) below gives estimates of a number of non-money metric indicators as well as the (HDI) ranking of some Arab countries and the world for year (2002). We have to note that (HPI) is measured for 95 developing countries, and as the ranking number gets higher, the country is in a worse condition.

Table (2)
Human Development Index (HDI), Human Poverty Index (HPI) and some Non-Money metric measure of poverty in some Arab countries (2002)

Country	Infant mortality rate per (000 of live birth)	Adult literacy rate (% of age 15 and above)	HPI * ranking	HDI ** ranking
Egypt	35	55.6	47	120
Jordon	27	40.9	7	90
Lebanon	28	-	14	80
Saudi Arabia	23	77.9	30	77
Syria	23	82.9	25	166
USA	-8	77.3	-	49
Yemen	79	4.9	67	149
World	66.9	63.6	-	-

Sources: (1) United Nations Economic and Social Commission for Western Asia (2005). Survey of Economic and Social Developments in the ESCWA Region 2004-2005. New York.
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* The (HPI) is calculated for 95 developing countries.
** The (HDI) is calculated for all nations.

V- Poverty, the Environment and Sustainability:

We have agreed in the previous chapter that it is hard to separate sustainable development issues from environmental issues. Many forms of economic development erode the environmental resources upon which they must be based. Actually, environmental degradation can undermine economic development. No doubt that economic development has led to dramatic improvements in the standards of living and quality of life in many countries around the world, but the picture is not entirely glorious. How?

- Gains from economic development have been unevenly distributed, and a large percentage of the world's population remains desperately poor (*World Bank, 2001*).
- Many environmental factors such as indoor pollution, water borne diseases, exposure to toxic chemicals threaten the health of millions of people and natural resources. Land, water, forests are being polluted at alarming rates in many countries. Table (3) below displays the burden of disease from major environmental risks in many parts of the world based on empirical surveys conducted between years 1996 and 1999 by the World Banks' supported research

teams. If we compare the last two columns of that table, the toll of environmental degradation on less developed countries (LDCs) compared to established market economies becomes so obvious.

Table (3)

(*) the Burden of Disease from Major Environmental Risks (1996-1999)

Environmental health indicator	%							
	Africa	**India**	**China**	**Asia Pacific**	**LAC**	**FSE**	**LDCs**	**EME**
Water supply and sanitation	10	9	3.5	8	5.5	1.5	7	1.0
Indoor air pollution	55	6	9	4	0.5	0	5	0
Urban air pollution	1	2	4.5	2	3	3	2	1.0
Agro - industrial waste	1	1	1.5	1.5	2	2	1	2.5
All cause	27.5	18.0	18.5	15.5	11	6.5	15	4.5

Source: World Bank (2001).

(*) Asian Pacific region: includes countries of East and South Asia except for China, India and Pakistan.

LAC: Latin American and Caribbean.

FSE: Former socialist countries of Europe.

LDCs: Less developed countries (all regions and countries in the first six columns).

EME: Established market economies.

Actually the story does not stop right here because the relationship between poverty and the environment is "mutual". In other words, as much as the deteriorating environment is affecting developing countries and poor people, being poor has its negative effect also on the quality of the environment and, hence, can negatively effect sustainability of economic conditions. To explain more, we can say that poor people always rely heavily on the natural productivity of the environmental services such as ecosystems and natural resources, which, in its turn, may lead to unsustainable path of utilizing those resources.

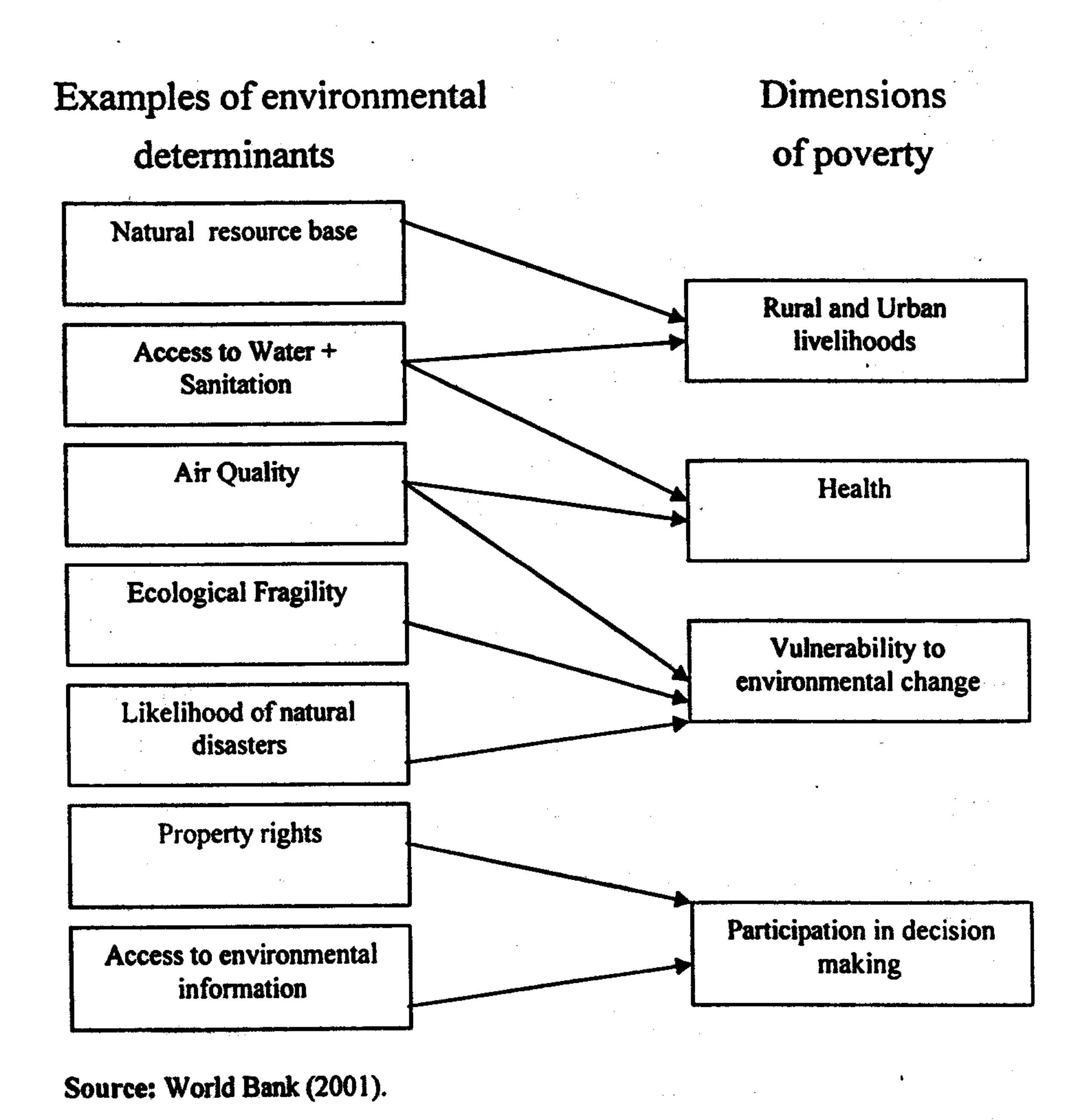
It is widely believed that poverty is the greatest cause of environmental degradation. The intuitive rationale for this view is that the poor person is less likely to care or worry about tomorrow. His immediate concern is how to obtain his daily food. This suggests that poorer communities will show little concern for "sustainability" and will not undertake conservation practices to prevent soil erosion, for instance. Figure (1) below shows the environmental links to the various dimensions of poverty.

Economic development experience and empirical data reveal that developed countries are – in fact – responsible for using up more of the world's resources than poor countries. Nonetheless, rising standards of living and

income levels often creates the means for reducing and tackeling environmental problems.

Figure (1)

Environmental Links to the Dimensions of Poverty



Source: World Bank (2001).

So, the problem that many developing / poor countries confront is that they are often caught in a "vicious circle of poverty"; they lack the means and financial sources to undertake conservation investments, while the gradual degradation of their resources and environment aggravate the decline in yields and income. Meanwhile, lower incomes depress investment further and induce desperate poor population to extract the maximum current revenue from the available limited resources.

The scale of environmental degradation and resource depletion could be highlighted by some measures of economic damage. The figures in table (4) below show to what extent gross national income (GNI) (or output) is negatively affected by environmental degradation in the various regions and groups of countries.

Table (4)

Resource and Environmental Damage as a Percentage of Gross National Income in Year 2001

Income group of countries	% of GNI				
	Energy depletion	Mineral depletion	Forest depletion	CO_2 damage	Particulate damage
The world	2.1	0.1	0.0	0.5	0.3
Low income	6.6	0.4	0.3	1.6	0.6
Middle income	7.8	0.3	0.1	1.3	0.7
High income	0.8	0.0	-	0.3	0.3

Source: Compound from World Bank (2003).

Of course, we have to keep in mind that such estimates might not be very accurate, especially those for low and middle income groups of countries. Nonetheless, the data as it stands, suggest that poor countries tend to lose a larger percentage of their (GNI) with environmental and resource degradation.

VI- Other Economic Causes of Environmental Degradation:

We can outline two other main causes that can explain the continuous deterioration of environmental conditions which came along with economic development.

***First: Market Failure*:**

The market mechanism of determining prices and quantities fail to account for the social cost that is generated by the environmental damage. In other wards, the supply and demand mechanism of setting prices neglects the "externalities" problem that come along with some types of production activities and levy its negative burden on certain groups other than the initial procedures.

***Second: The Government Failure*:**

The government fails to internalize the social costs of those types of production activities. Government policies

are usually directed towards securing revenues and/or achieving other objectives different from protecting the environment.

Why governments fail?

A number of reasons could be cited in that respect:

1- Some governments may be favoring securing the interest of some groups of influence. Even in democratic societies, governments may act to please certain powerful and pressure groups rather than the whole community. Since environmental legislations tend to impose costs on polluting industrial and agricultural activities, those legislations are often resisted by many groups.

2- Governments may not be getting the full or the right information that enable them to trace through the full effect/consequences of any particular action. Meanwhile, the governmental environmental policy may be contradicting other policies of high significance to the economy, such as the energy policy, the regional development policies or food security policies.

3- Sometimes it is hard to translate the policies into practical actions because of the lack of experts who can apply the regulations and policy. This usually happens

when government workers have little or no incentive to behave in the best interest of the community.

4- In many developing countries, the "subsidization" policies disrupt the function of the market pricing system and make things even worse. For instance, subsidies may make certain activities (production) look more appealing than others. This inefficiently diverts more resources towards that type of production. Subsidizing energy prices and irrigation water is an example of such policies.

Generally speaking government policies designed to stimulate growth and social welfare, may have positive or negative impacts. Its impacts on the environment may be ambiguous. Subsidizing fertilizers in some countries, for instance, encourage its excessive and inefficient use in farm land and, hence, discourage soil conservation though it may have positive impacts on the environment through increasing farmers' incomes and alleviating poverty.

VI- How to Alleviate Poverty?

Many studies had pointed out "rising productivity" as the driving force behind the increase of economic growth and rising per capita income (*US Dept. of State, 2002*). An expanding economy is translated into:

- Higher wages.
- Better jobs, and
- Higher standard of living.

The high levels of labor productivity supports the spectacular economic growth experience of East Asia over the past 25 years, while negative growth of productivity partially explains the sluggish growth of the Middle Eastern countries.

What enables people to be more productive? A number of factors such as:

- Building human capital and providing new skills.
- Providing some institutional changes such as:
  - ♦ Offering the right incentives to workers.
  - ♦ Removing governmental generated obstacles to business.
  - ♦ Developing and empowering the legal system.
  - ♦ Taking steps to reduce corruption ...etc.

Successful developing countries are found to follow wise policies in the areas of:

1) Encouraging private enterprises through market oriented mechanism with sound fiscal and monetary policies to ensure stability of business conditions.
2) Recognize the importance of good governance and competent public administration.
3) Open the economy to international trade and investment. Trade liberalization is proved to be a major driving force for economic growth during the past three decades. Studies show that, since the 1980, per capita incomes of developing countries that have lowered tariffs and increased international trade volumes, were rising significantly. Yet liberalization of trade is not sufficient. It must be accompanied by policies to promote education and training, encourage small and medium size enterprises to compete in areas where they have international competitive edges.
4) Increase investment in human capital such as health and education.

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Chapter 3

Industrial Development and the Environment

I- Introduction:

Long-run industrial development is usually based on a number of bases:

(1) Making benefit of the various savings and returns that could be achieved by specialization and division of labor.
(2) The transmission towards the market economies.
(3) The accumulation of both human and physical capital.
(4) The development of industrial technologies.
(5) The increase in expenditure on research and development.

Industrial development is considered a basic source of wealth of developed countries. However, the industrial development process was accompanied with many and fast changes with negative effects on the environment's quality. Some of such changes could be summarized in the following (*Tickell, 1999*):

(1) The fast population growth.

(2) Deterioration of soil with the intensive use of land to expand agriculture production. That is in addition to the vast areas and forest that have been transferred into industrial and urbanized uses for dwellings and others.

(3) Pollution of water sources.

(4) Change in the chemical characteristic of the atmosphere surrounding the globe with the increase in the acidity of the later.

(5) Depletion of "Ozan" layer and change in climatic conditions.

(6) Diminishing of many rare animal, vegetation, acquatic and other species.

II- How Does Industrial Development Affect Surrounding Environment?

The study that was conducted by the commission for environmental cooperation in year 1996 has indicated that the environmental pollution that was triggered by industrial production depends on three major effects.

(1) **The Product Effects:** some of the manufactured products could be described as "environmentally

friends", such as electronics, while others are considered as "enemies" for the environment, such as basic metal products, iron and steel, chemicals, paper and paper products, crude oil refining, petrochemicals, cement, and others.

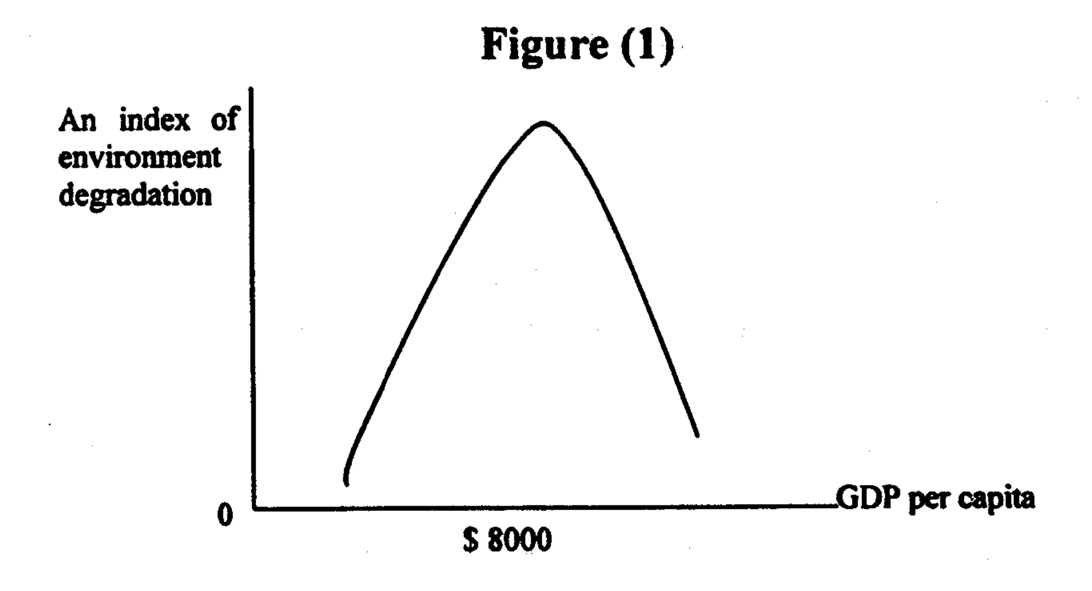
(2) **Scale Effects:** where the expansion of the scale of industrial production means higher rates of consuming and depleting many of the natural resources such as metals, forests, fossil fuels, water resources – etc.

(3) **Structure Effects:** where expansion of industrial sectors could be biased towards what is known as "dirty industries", i.e., industries that use fossil and raw materials intensively. Such business has created in some countries – specially in industrialized developing countries – what is called "pollution havens".

The same report presents the result of another study conducted in 1994 by Grossman on a relatively high number of developing and developed countries. The aim of the study was to determine the relationship between the environmental quality and the economic development. Grossman concluded in his study that such relationship could be graphically represented by an

inverted "U-shape" curve, as in figure (1). This relationship is known as "the environmental Kuznet's curve".

Figure (1)



That curve shows the degradation in the quality of the environment with the increase in industrialization and level of GDP. This situation continues till the GDP per capita rise enough (8000 American dollars or more) and then environmental conditions starts to gradually improve with subsequent increases in GDP/capita (*Bommer, 1998*). That change in the path of environmental quality index or the environmental degradation index is driven by the increase in the percentage of GDP directed towards protecting the environment, in addition to enforcing the application of environmental laws and regulations. Such results coincide with what (*Dasgupta et. al., 1995*) have found in their

empirical study to develop a number of environmental indicators. They conducted their study using data of 31 countries ranging between very poor countries and rich developed industrialized countries. The conclusion they came to was that the demand for a better environmental quality increases with the growth in the per capita income.

III- Industrial Development in Less Developed Countries and Its Environmental Effects:

Since the beginning of the 1980s, many developing countries have started to witness an industrial revolution of its own, specially in some of the South-East Asian countries as well as in a few Latin American countries. That industrial development was ignited by the trend of opening these economies on the rest of the world and the increase in the rate of international trade. The highest growth rate of industrial production came in the countries that we call now "newly industrialized countries", such as Taiwan, Singapore, South Korea, Hong Kong, China and others. That rate of growth jumped during the period (1990-1995) to 18% in China and 15% in other countries in South –East Asia, while the rate of growth in a developed economy such as USA was only 3% during the same period. That fast development in the share of industrial production in GDP was correlated with a vast deterioration in the quality of the

surrounding environment, that is considered even worse and more dangerous than that prevailed in the developed economies when it started its industrial revolution. What makes things worse in those developing economies?

The answer is summarized in the following:

(1) The high population density in the industrial cities.

(2) Most of the industries that have been developed in those countries are characterized as "environmentally dirty industries".

(3) The interaction of the polluted air and water sources the accumulation of solid and toxic wastes, in addition to the effect of poverty and malnutrition of a high percentage of the population were translated into a very dangerous health situation that does not only affect the productivity of the human resource factor but also threatens the lives of those human beings.

If we take a closer look at the Arab countries region, as a part of the developing economies, we can observe some sorts of industrial development that was relatively intensive during the period (1970-1991). The rate of growth of industrial production in that region during that period ranged between 11.5% in a country such as Morocco and 33% in Saudi Arabia and 38.5% in Oman (*Mathadi, 1995*).

That industrial growth was reckoned on a number of important factors that included:

(1) The growth of oil export revenues in the region.

(2) The availability of oil as a cheap source of energy generation in many parts of the region.

(3) The intensive "subsidy" policies that many governments followed to enlarge many industries. For instance, the average amount of subsidy that was channelled to the fossil fuel and electricity generation industries ranged between $ 12 billions and $ 14 billions, annually.

That industrial development which relied heavily on the intensive use of fossil fuel energy, together with the considerably low efficiency rate of energy use, led to a great deterioration in the environment's quality. For instance, 40% of the carbon dioxide emissions in the area of great Cairo was generated by industrial sources of production, whereas the increase of industrial toxic and organic wastes was a main cause behind the worsening irrigation water quality.

IV- New Industrial Revolution and the Environment:

Since the 1970s, the world started to live a new form of industrial revolution that exposed itself in the form of a vast development in electronic communications, Lisar products, new materials and others. That new industrial trend is heavily relying on the use of new technologies of production and the re-allocation of labor and capital factors from the production of heavy and polluting industries, with relatively law levels of average productivity, towards new industries that use newly developed technology as its main input and characterized as high value added production sector.

The main objective of that new technological and industrial trend is achieving sustainability of industrial production. That sustainability is stimulated through a number of strategic goals such as:

(1) Boosting the firms' ability to compete in both local and international markets.

(2) Increasing the industrial labor employment and enhance the productivity of that labor through the improvement of existing industrial technology together with the application of newly developed technologies.

(3) Following the new trend of creating "global enterprises".

(4) Avoiding creating and adding extra load on the surrounding environment.

(5) Spending intensified efforts to treat the polluted environment and make it more healthy, through:

One) Reducing energy content per unit of production to its minimum levels.

Two) Increasing the efficiency of using natural resources in the industrial production.

Three) Make use of recycling and re-use techniques in the industrial sector.

The real effects of such new industrial revolution on the economic resource base and the environment is not clear yet. Many of the new manufactured goods and technologies use dangerous inputs that requires a lot of caution in its handling. For instance, many products such as genetically engineered products, lisar products, optical fibers, ceramic, semi-conductors and others, may have serious effects on the human health as well as on the health of other creatures (*UNEP, 1989*) and (*UN, 1990*). This requires taking many safety measures in the manufacturing process as well as in the use of those products.

V. The Effect of Technological Development on the Structure of Industrial Production in the Developed Economies:

Despite the relative stability of the size of the industrial production in the developed economies, the development of new technologies of production in the past few decades has stimulated great changes in the industrial structure in those countries.

In year 2000, a study was conducted in the USA to evaluate the growth of productivity in 37 American industries (*Dale et al., 2000*). The results revealed that the "Hi-tech industries" such as computers, electronics, communication tools, semi-conductors…etc. came on the top of the growing industries in terms of both the size of production and the level of labor productivity. Whereas the industries that suffered slow or negative growth are the old tradition industries such as, leather and leather products, oil and natural gas products (*World Watch Institute, 2000*). Information technology industries was on the top in terms of its positive effect on both of the labor market and the financial market. It is believed that:

- Those industries have helped the American economy to go through its longest period of recovery ever in its modern history.
- Moreover, those industries were of great assistants in reducing rates of energy consumption and the affiliated harmful emissions in the transportation sector.
- Such industries are also essential for the use in the monitoring system of the industrial pollution, which is required for any successful management of environmental policies.
- The use of the new materials was a great source of reducing reliance on traditional raw materials. In Japan, for instance, the use of new materials have reduced its crude oil consumption in energy generation. Meanwhile, the new biotechnologies are used in waste recycling and energy generation from renewable sources.

The growing concern of having clean production technologies stimulated the creation of a new line of industries known as "environmental industries", which produce goods and services that are essential for monitoring and measuring pollution and control its dangerous effects. The production structure of those environmental industries is dual, where about 50% of the firms are large companies

while the rest are small firms. Meanwhile, that industry is controlled by a small number of large industrial countries such as USA, Japan and Germany. For instance, Japan is controlling the production and exports of the air pollution control equipments, whereas Germany is the largest country in producing and exporting water pollution treatment equipments, and USA controls the market for industrial waste management equipments.

V- Developing Countries and New Production Technologies:

Insufficient financial resources as well as the lack of technical knowledge reduce the contribution of the developing countries in the race of producing new technologies almost to nill. Moreover, factors such as:

- Inelastic production system.
- Small size of industrial firms.
- Weak local market.
- Weak financial markets, and
- Lack of essential information regarding the new technologies introduced in the developed economies.

Those are all factors that play basic roles in keeping the new technology from being applied in many of the developing economies. All of that reduces those countries'

competitive position in the world markets for manufactured goods. Add to this, a number of other problems that face the developing world in its competitive position with the industrialized economies, such as:

- Poor environmental legal system and weak enforcement of laws.
- Weak knowledge and fable information system regarding existing new technologies.
- Insufficient financial measures for investment in the new technologies and inefficient procedures for evaluating new projects employing new technologies.
- Unwillinges of banks and other financial institutions to finance the small and medium – sized enterprices.

So, a change is needed in the developing economies. This requires the cooperation of efforts of the banking sector, the governmental sector and the non - governmental organizations to include such changes in the macroeconomic policies of the economy.

VI. The Environment and the Competitive Position of Different Industries:

The competitive position of any industry is based on its "relative productivity" which is usually transmitted either into lower average cost of production or the ability of

offering distinguished products that justify the price premium. Therefore, employing policies and taking actions to control industrial pollution would definitely affect the private cost of production in the various industries, which may, in its turn, negatively affect the industry's competitive situation in the market. However, the eventual effect on the macroeconomy will be determined by a number of variables that include:

- The elasticity of the production structure.
- The relative weight of the harmed industries.
- The ability of those harmed industries to adjust with new prevailing conditions to maintain its competitive position.

Some studies, such as (*Peter et al., 1995*), indicate that the competitiveness of the industrial firms does not rely on its big size or its cheap prices as much as it depends on its innovation ability and its continous progress. Accordingly, the definition of the "comparative advantage" should not rely on the stagnant concept of efficiency, but later, should be based on the industry's capability to achieve dynamic efficiency. "Porter" argues that if the existing industrial standards are designed in the right way that stimulate development and innovation, it would – partially

or totally – reduce the negative effect of the high cost of environmental protection. This is what is called the "innovation offsets" that may lead the company towards achieving "absolute advantages" in comparison with other firm in foreign countries that do not apply similar environmental rules. The "*innovation offsets*" may be divided into:

1) "Product offsets" that take place when the environmental regulations contribute to the creation of better industrial performance, or improving products' quality, or reducing the average cost of production, ...etc.

2) "Process offsets" when the pollution control is accompanied by an increase in materials' productivity, such as using less material, or less energy, or better use of by products, or waste recycling, or reduction of waste disposal, or the use of cheaper materials, ...etc.

Porter provided empirical proofs that the companies which are "leaders" in implementing environmental regulations and standards could achieve a comparative advantage in benefiting from the advantages of the "offseting".

That analysis coincides to a great extent with (*Dollars, 1993*) the analysis that considers technology as an input in the production process. It helps to interpret – to a large extent – the comparative advantage and the international trade in both short and medium run in the industrial countries that possess similar production capacities. But in the long run, the differences between companies regarding the application of new techniques of production is one of the major sources of variances in the comparative advantage of industries that use advanced technologies. On empirical grounds, several reports conclude that the environmental factor will be a major determinant of comparative advantage and competition among countries. Only those who can abide by the environmental standards will be able to survive and overcome the rest of their competitors in the market (*World Watch Institute, 1999*). Here we can differetiate between types of empirical studies. The first type concentrates on studying the environmental effect on the competitiveness of the industries on a macroeconomic level, while the second type concentrates on the micro level , i.e. the industry level.

VI-A The Macroeconomic Environmental Effects on Industries:

- Some studies (*Charoritz, 1993*) and (*Dean, 1992*) have shown that environmental regulations and standards were not a significant source of variance in the cost of production among competitor countries in (OECD). On the contrary, in many cases those standards gave a powerul incentive to develop the existing technologies of production, which led to the upward shift in the levels of productivity and comparative advantage.
- Other studies were able to prove that industries which are pioneers in applying new technologies usually gain a better competitive position in the world market (*Medhurst, 1993*). The negative effects of the extra environmental protection costs were compensatetd with a macroeconomic positive effect in the form of a decrease in input costs, increase in production efficiency and others (*Birch Snrenson, 1993*). Meanwhile, many of the environmental policies used in the (OECD) countries have taken in consideration the objective of minimizing its own negative effects on the industries' cost of production. Therefore, the increase in total cost imposed by environmental protection investments were partially compensated through tax breaks, subsidies, tax exemptions, ...etc.

VI-B The Microeconomic Environmental Effects on Industries:

Most analysts agree that environmental policies may have considerable effects on some industries or firms, though such effects may not be observed on the macroeconomic level. For instance, the investment in environmental protection techniques in heavily polluting industries such as cement, paper and paper products, petrochemicals, iron and steel, mining, oil refining and other industries, may raise total cost of production in those industries by 18% to 20% (*USA Office of Technology Assessment, 1992*). On the other hand, abiding by environmental regulations and standards may have positive consequences on the overall performance of those industries. In Japan, for example, following measures to increase energy efficiency and reduce raw material's use in production have created a significant decline in average cost of production and, hence, boosted the Japanese competitive position.

There are many other examples in the empirical studies that show the positive effect of implementing environmental protection standards in the industries that have the ability to develop and diversify its products.

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Chapter 4

International Trade Agreements and Its Effect on the Arab Economies

I- Introduction:

In this chapter, we quickly expose the main international trade agreements that have taken place on the global arena since the second half of the past 20th century up till now. We highlight its main objectives and its effects on growth of trade. We explore further the effects of certain agreements on the developing countries with emphasis on the Arab region.

II- The Development of International Trade System from (GATT) to (WTO):

Since the establishment of the "General Agreement on Tariffs and Trade (GAAT) in 1947, negotiations continued to improve the performance of the international trade and enlarge its scale. Even after the formation of the World Trade Organization (WTO) in 1994, efforts were intensified to solve many serious hanging international trade issues and problems, such as intellectual property rights, dumping and subsidies problems, rules of origin, electronic

trade, customs' evaluation and other economic as well as administrative types of obstacles.

Of course, we can not study thoroughly all such significant issues. We will touch on some of them while exploring others in some details.

II-A The General Agreement on Tariffs and Trade (GATT) in 1947:

That agreement came out as a result of important negotiations among several countries after the Second World War to pin down many of the trade restrictions and barriers that had grown before and during the war. The agreement was signed in Geneva (Switzerland) in 1947, with general objectives developed and directed towards the promotion of free trade and growth of commodity exports through multilateral trade negotiations. At that time, it was expected that such agreement would be part of an International Trade Organization (ITO) that would be responsible for regulating the international trade among the participating nations. However, several disputes took place during negotiations – specially between USA and other developed economies – and the (ITO) was not ratified. The (GATT) was salvaged and used as a charter for trade relations.

The (GATT) is based on a number of important principles:

(1) The reduction of tariffs and elimination of non – tariff trade barriers among the participant countries. The most important non – tariff barrier that was eliminated is "quotas". However, quotas on agricultural products were exempted. Also countries that suffered chronic balance of payments problems were also exempted from implementing some of the GATT's requirements..

(2) "Non discrimination principle" in conducting deals among the member countries. According to this principle, if a member country extends a certain trade advantage to one of its trade partners, customs' reductions, for instance, that kind of advantage should also apply to its trade with the rest of the signatory countries. Exceptions are allowed in cases of "economic integration" among countries, such as the cases of "customs unions", "free trade areas", and others.

(3) "Consultation principle" to resolve disputes that take place during the course of trade. Disputes evoked by "dumping", "export subsidies" and others should be discussed and solved within the "GATT" framework.

(4) Principle of " National Treatment". It refers to the obligation of all trade partners to treat imported goods equally with similar or substitute goods that are produced domestically. Similarity of treatment involves issues of taxation, tariffs, and others.

(5) "The most favored nation" principle is allowed in cases of trade among or with less developed countries. The aim is to assist those countries in their efforts to increase rates of economic development.

In 1947, the number of countries that signed the agreement was 23 countries. By the end of 1993, that number had risen to 123 countries, accounting for 90% of the global trade.

II-B Various Rounds of "GATT" Negotiations:

International trade negotiations has continued all along during the 1960s and up to this moment. Those negotiations passed through a number of rounds. We only hilight some of those rounds.

(1) The "Kennedy Round" negotiations that were initiated by the USA under (GATT) auspices in 1962. It was completed in 1967. The results of negotiations was requiring additional reductions of tariffs rates on

industrial products. However, non-tariffs trade barriers on agricultural products remained.

(2) The "Tokyo Round" of (1974 – 1979). The participant countries negotiated further tariff reductions to be phased out over eight years period starting in 1980.

(3) The "Uruguay Round". This round of negotiations started in 1986 and was completed after 7 years in 1993. It is considered the 8th round in the course of multilateral trade negotiations. Many disputes and conflicts disturbed the course of those negotiation, specially disagreements between USA and France regarding protecting agricultural products and its subsidies. This round is the last and the most famous of the (GATT) rounds. ***What is so special about the Uruguay round***? We can briefly outline the main characteristics of this round in the following points.

Developing countries had a bigger and more effective role in the negotiations' course.

A new system for disputes' settlement was initiated.

Previous trade agreements were considered as a starting point in the international trade system. The "GATT Agreement" that is implemented since 1994 – after the

end of this round – is considered now as a base for the multilateral international trade system in commodities.

- All the provisions of the agreement are fully obligatory for member countries. No country can choose to apply some provisions and ignore the rest of the provisions. The agreement is not divisible.

This system is a part of the general framework of what is known as the "World Trade Organization" (WTO) which control international relation. The major provisions of the agreement that resulted from Uruguay Round could be summarized as follows (*Salvatore, 2001*) and (*UNESCWA, 2001*):

(1) "*Tariffs on industrial products*" are to be reduced on some commodities and removed altogether on others such as pharmaceutical products, construction equipments, medical equipments, paper products, and steel.

(2) "*Quotas on imports of agricultural commodities*" and imports of textiles and apparel are to be replaced with less restrictive tariffs over a period of 10 years.

(3) "*Dumping*" problems should be subject to tougher and quicker actions. It is worth reminding the reader at this point that "dumping" refers to exporting a commodity at

lower prices relative to the commodity's price level in the domestic market, which harm producers of similar goods in the importing countries. The agreement sets rules for calculating dumping or price margins, anti-dumping tariffs, and measures of harm caused by dumping. It also specifies a period of 5 years as a time limit of applying anti-dumping measures.

(4) "*Export subsidies*" and "*countervailing measures*". An export subsidy refers to a direct payment, or granting of tax relief, or subsidized loans to the nation's exporters, or low interest loans to foreign buyers, so as to stimulate the nation's exports. Also, discrimination in use in favor of domestically produced goods and against foreign produced goods, is considered a kind of subsidy that is prohibited by the (GATT).

In case of export subsidies, "countervailing measures" could be used to offset the effect of subsidy. Those measures include tools such as "countervailing tariffs" or "compensation" of the harmed agent. Such measures ought to be removed through 5 years period of its application. Also, there are exemptions in favor of developing countries, such as the fact that law-income developing countries[*] are not prohibited from using

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[*] Law income countries are those with per capita income of less than $ 745 a year.

export subsidies to promote their exports. However, the rest of countries are obliged to phase out export subsidies over 8 years period starting in 1995 (the date of establishing the WTO).

(5) "*Agreements on safegurds*". It means that nations may temporarily increase their tariff rates or impose other trade restrictions on some imports in case of an extraordinary increase in the size of those imports, which causes harm to the domestic production.

(6) "*Agreements on intellectual property rights*". Those rights include:

- Copy rights.
- Trade marks.
- Patents.
- Geographical marks (such as place of manufacturing and product quality).
- Industrial designs and manufacturing secrets.

Member countries have obligations to carry out all necessary actions to implement intellectual property right's protection with a grace period that differ according to the type of the activity.

(7) "*General Agreement on Trade in Services*" (GATS). It includes all types of internationally traded services. There are 2 main types of obligations in this respect:

a) General obligations that apply to all sectors of services, such as abiding by the "most – favored – nation" principle, facilitating developing country's participation in services' trading, and others.

b) Specific obligations designed for specific service sectors and varies by country.

(8) *Agreement on trade related investment measures*. It includes conditions imposed by local authorities on inward direct foreign investments, such as the requirements that foreign investors must buy or use locally produced supplies or export as much as they import, or the percentage of national content of the investor's production.... etc.

Developed countries are granted 2 years grace period to apply this rule, whereas developing and least developed countries are granted 5, and 7 years grace period, respectively.

(9) "*Agreement on rules of origin*": It involves the rules set by governments to determine the origin of the imported goods. Such rules should not restrict or hinder trade.

(10) "*Agreement on ways to calculate tariffs*" and other trade procedures in case of forming some kind of international economic integration such as " custom unions" or "Free trade areas". The objective is to guarantee no further restrictions on trade with countries outside the economic integration.

(11) "*Agreement on technical barriers to trade*". It involves technical issues such as packing, trade marks, technical standards, product contents or ingredients, health requirement, etc.

(12) "*Agreement on customs valuation*". It sets the rules that regulate the relationship between the customs authorities and importers when it comes to determine the value of the good for the purpose of imposing tariffs.

II-C- Agreement on the Establishment of the World Trade Organization (WTO):

That agreement came out as one of the major provisions of the Uruguay round that we outlined above, and was put into effect as of January 1995. This provision meant the replacement of (GATT) secretarial with the (WTO) in Geneva, with authority not only in industrial products but also in agricultural products and services. This organization undertakes the responsibility of:

(1) Solving disputes that arise in the course of trade among member countries according to the various provisions of the (GATT).

(2) Facilitate the implementation and management of the various provisions of the Uruguay Round or any other future agreement.

(3) Conduct periodical revision of commercial policies of member states.

(4) Cooperation with the World Bank and International Monetary Fund (IMF) and their agencies for better coordination regarding designing economic policies on international level.

The number of member states was over 142 countries in year 2002. Many of those countries are developing countries. The country could be granted the right of membership after executing certain steps to adjust its economic conditions and national legalities and institutions to be in harmony with the rules of the multinational trade agreements. Meanwhile, the country must abide by the (GATT) rules in fixing the tariff rates and accepting (GATS) obligations.

The decision to joint (WTO) should not be an objective by itself, but rather a medium of getting advantages of the available opportunities to improve the country's export conditions. Abiding by (WTO) rules may help the country to penetrate the world markets of goods and services and to improve its competitive status.

A number of benefits could be achieved by joining the (WTO). The following are examples of such benefits:

(1) It widen's the country's international trade opportunities if it enjoys certain comparative advantages in some of its production sectors.

(2) It allows for some sort of reasonable forecasting regarding trends of future trade. Hence, it assists in forming marketing and export plans.

(3) Continuos evaluation of the countries' trade policies will bestow a great deal of transparency on the developments in the member countries' trade possibilities. This helps in making future plans.

(4) The (WTO) is the center for any future negotiations that may be of concern to many nations.

On the other hand, we may cite some disadvantages of joining (WTO):

(1) Regarding agriculture products agreement, reducing subsidies may be a major cause of a relative price increase of basic materials, which generates general repercussion effects and harm many countries.

(2) As for the agreement of intellectual property rights, its application may weaken many country's ability to obtain and enjoy some of such rights.

III-The Effect of (WTO) on the Arab Countries:*

The effect of (WTO) on any country, including the developing countries and the Arab World, is determined by a number of factors:

(1) The exports' structure of the country.

(2) The extent of trade reform in the country.

(3) The geographical distribution of the country's exports to developed and developing nations.

(4) The extent of "openess" on the rest of the world.

(5) The level of economic development in the country.

So, if we look at the Arab countries, we can divide them into four distinguished smaller groups of countries as follows:

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*This part relies to a great extent on the papers that was presented in the meeting in Doha-Qatar (9-13) November 2001, in preparation for the ministerial conference of (WTO).

(1) The group of Arab countries that rely heavily on crude oil and oil products' exports. This group includes: Saudi Arabia, Kuwait, Iraq, Bahrain, UAE, Qatar, Oman, Libya and Algeria.

(2) The group of countries with diversified structure of exports. It includes Egypt, Jordan, Lebanon, Syria, Morocco, Tunis and Yemen.

(3) The group of countries with a significant sector of services exports, such as Egypt, Tunis, Morocco, Lebanon, Syria, Algeria and Jordan.

(4) The group of countries which is considered least developed countries, such as Sudan, Somalia and Mauritania.

We would consider the effect of (GATT's) agreements on each of those sub-groups of Arab countries.

III-A The Effect on Oil Exporting Arab Countries:

Concerning this group of countries, we have to differentiate between crude oil exports, and exports of oil products and petrochemicals products.

(1) As for crude oil exports, it is not expected that the (GATT's) agreements will have any significant negative influence on its size. Why? The main justification is that

crude oil exports either have zero or very low rates of tariffs or any other barriers to trade. So, the (GATT) will not create additional trade in crude oil.

(2) But when the focus is the exports of oil products and petrochemicals things will be different. International trade in those types of products are subject to much higher levels of tariffs. So, reducing tariffs on such trade among (WTO) members, would encourage exports. Hence, it would be beneficial to the oil exporting countries in the Arab region to be members of (WTO) in order to gain from such trade expansion.

III-B- The Effect on the Diversified Economies in the Arab Region:

The group of Arab countries with diversified economies and export's structure constitutes about 85% of the total population in the Arab region. The bulk of its exports comes in the form of agricultural products, food products, raw materials, and some manufactured products (*Nagar, 2001*).

III-B The Effect of Trade Liberalization on Agricultural Products:

As has been mentioned in the first part of this chapter, the GATT's agreement in 1994 has covered removing barriers on trade of agricultural products. Without going into deep details of the agreement on those types of products, we can just say that such products were subject to great reduction in both national subsidies and exports' aids, that are usually used intensively in developed countries, such as USA, Japan and European Union. Most of those reductions concern the agricultural food products such as sugar, dairy product, oil products, beans and meat. Except for rice in Egypt, and olive oil in Tunis, the Arab countries are considered net importers of the agricultural foods products that were subject to reduction in national or domestic support, which affect the competitive positions of those countries. The products which the Arab countries usually export – with comparative advantage – are mainly some vegetables and fruits. Those kinds of products are not usually subject to programs of domestic support. So, we think that it is not evident that Arab exporters will benefit much from that agreement. On the other hand, as net importers of agricultural food products, many Arab

countries may be harmed by the agreement due to the expected increase in prices.

Nonetheless, it is worth directing the reader's attention here to the fact that such results are not final and are still ambiguous for two main reasons:

(1) Most of the non-tariff trade barriers that were demolished by the agreement, were replaced with tariffs. In some cases, those newly imposed tariffs may be as high as 200% or 300%.

(2) The negotiation, so far, had reduced or demolished no more than one third of trade barriers in the agricultural sector. But negotiations are still continuing, and it may come up with some results of benefits to the Arab countries, specially those Arab countries who are dealing (exporting) intensively with the European Union. The Arab countries that relies heavily an exporting agricultural products to the Gulf area may not benefit from the agreement, because the Gulf countries do not impose restrictions on their food imports. On the other hand of the equation, the Arab countries – as a big importer of agricultural products – will be a loser with the application of the agreement due to the expected rise in the general prices of those products generated by

the removal of domestic support in the exporting countries. Meanwhile, food aid that is usually offered by developed countries may be reduced with the decline in excess supply of such products in their countries.

The expected negative influence of the agricultural products agreement on net importers has initiated a need in (WTO) to establish adequate mechanisms to minimize or remove the negative effect of such developments on less developed countries, in general, and the least developed countries, in particular. These countries are usually net importers of food products.

III-B The Effect of Trade Liberalization on Exports of Manufactured Products:

Saudi Arabia, Tunis, Morocco, and Egypt are the four major exporting Arab countries of manufactured goods (النجـــار، ٢٠٠١). As for Saudi Arabia, most of its manufactured goods exports are oil products and petrochemicals products, which we already discussed above. Egypt, Morocco, and Tunis, on the other hand, export textiles and cloth mainly to developed economies. Before the (GATT) agreement in 1994, the exports of such products were determined directly using the "quota" system just like

the agricultural products. Accordingly, those Arab countries were deprived, in the part, from reaping the benefits of their comparative advantage position when exporting those products by quota system. When the (GATT) agreement on textiles and clothing would be implemented in year 2005, the quota system will disappear, and those products will be subject to similar (GATT) rules that are applied on other manufactured goods.

Accordingly, the Arab countries that would be able to maintain its comparative advantage in that field of production will be able to compete in the world market and benefit from free trade, otherwise, things will look really bad.

III-C The Effect of Trade Liberalization on Service Exporters in the Arab Region:

Exports of service such as tourism and labor migration have great influence on the economic conditions in countries such as Egypt, Lebanon, and Jordan. The revenues of those exports help to finance a considerable percentage of the deficit in trade balance of the balance of payments in those countries.

III-C-A As for the revenues generated by the transfers of national labor working in foreign countries, the (GATT) agreements in 1994 did not change or offer any thing new regarding this issue. Still labor's right and ability to move from one country to another is one of the most sensitive issues that face great resistance in the developed economies. Those countries fear the effect of free mobilization of labor from developing countries on its domestic labor markets. The agreement left the issue of labor mobility/migration to dual or regional arrangements.

III-C-2 As for exports of tourism services, the (GATS) agreement may initiate a positive influence on that sector. The principle of "most-favored-nation" is considered the general rule in all tourism services. In addition to the application of this rule, the (GATS) required the establishment of communication centers (in interested countries) to provide information on issues such as legalities, regulations and administrative systems in the touristic countries where such issues may affect the quality of touristic services.

Accordingly, Arab countires may benefit if it were able to abide by those requirements. However, in general, trade in service is still one of the topics subject to

continuous negotiations in (WTO), and new requirements may come up. Therefore, it is not easy to determine yet the final effect of the (GATS) on the Arab countries that export services.

III-D. The Effect on the Least Developed Countries:

The (GATT) agreement in 1994 included some sections that give special treatment (advantages and exemptions) to the least developed countries. Such special treatment take various forms:

- Exemptions from the need to reduce or remove tariffs on imported goods.
- Granted longer periods of adjustment compared to other countries.
- The right to abide only with the requirements that do not contradict with those countries financial, commercial and development needs.
- Those countries are provided with increasing packages of technical support in order to induce and help it to diversify its production sources and promote its abilities to increase exports.

Accordingly, if Arab countries in this category of nations were able to adjust its domestic conditions to fit the requirements of the (GATT) agreement, it may gain many benefits.

All of this does not imply that the majority of developing and least developed countries are content and satisfied with what it gained in the (GATT) agreement of 1994. On the contrary, those countries see that the slow application of certain agreements such as agricultural products agreement, textile and clothing agreement ... etc., is harming the balance of rights and responsibilities which was settled by the (GATT) in the Uruguay Round. As a result of that general feeling and discontent, the developing countries declared that it will not accept any additional or new obligations before the full implementation of current ones. The developing countries are also resisting some developed countries' efforts to get (WTO) into issues related to labor problems and standards. The developing countries' opinion is that such problems should not be handled by the (WTO) but it is the field of concern of the international labor organization.

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Chapter 5
Trade-Related Finance and Insurance Problems Facing the Small and Medium Size Enterprises in Egypt

I- Introduction:

Small and medium size enterprises (SMEs) is the common structure of most production activities in the Egyptian economy and is part of its socio-economic foundation. So, any economic scheme to expand Egypt's exports and create new job opportunities for its growing labor force should closely focus on developing the (SMEs) and tackeling the various problems that weaken its ability to grow and compete. Some of these problems are initated by inadequate access to competitive sources of finance and insurance products, along with inefficient payment arrangement. Many of the (SMEs) in Egypt have strong potentiality for being competitive exporters, however, they are denied access to the world market due to shortcomings associated with inefficiency of trade-related financial and insurance products. Inadequate access to such products is a principal barrier to the export promotion national goal.

Such services could affect the country's comparative advantage and, hence, its competitive position in the world markets in several ways:

a) No adequate finance for potential export production indicates exclusion from the world markets.

b) Available but costly finance and insurance schemes mean higher relative prices of exports, lower comparative advantage and fragile competitive status.

c) No or inadequate export credit insurance polices mean slim chances for extending preferable terms of payment for foreign potential importers.

d) Antiquated communication and payment techniques imply delays and eventual loss of foreign business.

The problem of insufficient trade – related financial services to (SMEs) could be explained by two groups of variables:

(1) The first group directly affects the supply of such services, such as:

- The general scarcity of financial capital,
- Inadequate capacity of insurance business,
- Regulatory constraints, and

- State monopoly of certain financial products (*UNCTAD, 1977-b*).

(2) The second group of factors aggravates the inefficient distribution and/or raise delivery cost of financial services. Examples of such factors include:

- Lack of information available to (SMEs).
- Incompetent telecommunication systems.
- Inexperienced personnel.
- Corruption.
- Bureaucracy and red type.
- Strong influence of certain powerful groups.
- Inappropriate economic policies.

II- Trade-Related Financial Products:

II-A Market structure of trade-related financial products:

In Egypt, about 60% of the commercial banking activities are in the hands of four state-owned banks. Most of those banks provide credit to (SMEs). However, the extent of that finance is considered very limited relative to the needs of that business sector, on one hand, and compared to what is usually offered to large well-

established enterprises on the other hand. The "Export Development Bank of Egypt" (EDBE) is a specialized bank that supplies credit to exporters. Unlike other countries, no non-banking financial institutions operate in the Egyptian market to provide short-term credit to the foreign trade sector. The currently existing "investment institutions" only supply long-term credits for investment.

II-B Accessibility:

Banks prefer dealings with enterprises that have developed substantial experience in working with foreign markets. Why? the answer is:

- Many of those large companies are equipped with qualified teams of professionals who have access to information on foreign markets. Hence, they can develop better judgment of trade opportunities.
- While the size of the bank's commission is positively correlated with the value of the foreign transaction, the average cost of investigating creditworthiness of the client as well as of studying the financial feasibility of his proposed operation, is usually negatively correlated with the size of the firm.

- For such reasons, it would be more profitable and less risky for commercial banks to concentrate on financing large clients - whenever possible - rather than (SMEs). Furthermore, some banks look at large companies with foreign partner(s) or foreign correspondents as the most successful forms of export business, and hence, they rarely hesitate to finance their foreign export operations.

Short-term credit represents about 70% of total loans and advances extended by commercial banks (*Central Bank of Egypt, 1997*). The published figures, however, do not help in figuring out the exact amount of credit facilities channeled by banks to the foreign trade sector. In the (EDBE), roughly about 75% of the credit facilities are directed towards foreign trade, with special emphasis on exports. In other banks most of the foreign trade finance is usually extended to accommodate imports (80%-90%) rather than to facilitate exports. One justification for such result is that the risk of financing export operations is higher than that of financing imports, whereas, the margin of profit is much smaller. Moreover, in case of imports, the bank has more control over the goods either in the port or in storage places.

II-C Pre-Shipment export finance & required guarantees:

The role of commercial banks in pre-shipment finance of exports varies from one bank to another. This role is more obvious and relatively intensive in case of the four state owned commercial banks as well as some of the large private and joint-venture banks. Egyptian banks had always financed the pre-shipment operations of cotton exports. In the industrial sector, banks take part in financing the imports of raw materials and intermediate products needed to be processed locally and re-exported. Some large banks – such as Bank of Alexandria, National Bank of Egypt, (EDBE), and others - provide direct sources of pre-shipment finance for exports through owning shares in a number of large production and trading companies engaged in foreign exports. A bank like the (EDBE) can finance up to 50% of the value of export contracts of agricultural as well as industrial products. To the (EDBE) bank, as well as to other banks, the pre-shipment finance is still considered a risky subject. To reduce the amount of risk taken by the bank, a credit priority is given to exporters who are producers as well, because – in this case – the goods would serve as a source of guarantee for the bank. Banks extend pre-shipment finance to the large exporter, guaranteed by

the factory itself, even without the presence of an export contract.

A related subject, is the issue of "***credit guarantee***". In general, Egyaptian banks do not emphasise on obtaining physical guarantees for extending credits to large known clients. For instance, around 70% of short–term credit advanced by commercial banks during the period 1991-1997, was without "in-kind" guarantee (*Central Bank of Egypt, 1997*). The commercial bank, mainly, reckons to the client's financial status (creditworthiness) and his ability to generate revenues to repay his credit. However, in cases when the risk rate is high - as in the case of small, new, unknown, or even large but doubtful customers - the bank usually insists on obtaining some guarantees. The types of guarantees vary by:

- The kind of traded commodity,
- Size of the transaction,
- Reputation of the foreign client,
- The risk assessment of the foreign country,
- Creditworthiness of the Egyptian clients ...etc. For (SMEs) the credit collateral can be - in some cases – twice as big as the size of the requested credit. Requests for finance by (SMEs) are often denied due to insufficiency of provided collateral.

II-D Foreign trade financial devices:

So far, Egyptian banks are mainly engaged in providing the traditional financial services for foreign trade sector. Letters of Credits (L/Cs) are considered the most common and trusted payment device for foreign trade (imports and exports). It is the most popular among exporters, specially the (SMEs). Exporters can easily use their irrevocabkle L/Cs – specially if it is confirmed – to obtain short-term pre-or post-shipment finance from the bank. An "Export Contract" – which is usually certified – can also be used to acquire pre-shipment finance. Credit could be obtained against transportation documents, such as the "Bill of Lading", even without L/Cs. However, the bank's commissions and interest rates on such finance is typically higher than in case of financing against irrevocable confirmed L/Cs. The use of "Bills of Exchange" and "Open Accounts" as tools for payment in foreign trade, is still very limited in Egypt. Box (1) below provides a list of some popular financial devices related to international trade.

Banks' preference and acceptance to provide finance against one payment device rather than the other, depends on a number of factors such as the client's reputation, type

of exported commodity, confidence in the foreign partner, the risk assessment of the importing/exporting country, etc.

In fact, we conceive heavy reliance on documentary payments as one of the obstacles that might hinder export expansion efforts in some markets. Documentary payments are usually preferred as a method for proving each side's rights, nonetheless, it curbs the domain of foreign markets for some exports. Importers in developed countries are increasingly reluctant to accept export offers that require issuing (L/Cs) (due to the involved expenses and paper work) with the wild competition accompanying the globalization of world markets, importers in Europe and USA find it less costly and more time saving to avoid using documentary payment devices as much as possible. Consequently, exporters with no access to alternative financing tools are loosing trade opportunities when competing for business in the Western developed markets.

Non-traditional financial devices such as "***factoring***" and "***forfeiting***", are not so common yet in the Egyptian market, except in a few cases where such devices are used on a relatively limited scale. Developing such tools, however, is part of the long-run modernization strategy in a number of the large banks.

Some banks have already started taking steps towards improving their financial services, which is expected to have a positive effect on the quality and quantity of Egyptian exports in the future.

Box (1)
Foreign Trade Payment Mechanisms

A wide variety of payment mechanisms are available in international trade, each with particular advantages and disadvantages. The foreign trade-related methods of payment range between two polarities, e.g., the "open accounts" and the "certified documentary credits".

In cases when trading parties are well established, creditworthy, have absolute confidence in each other as well as in the country's stability, **"open account"** terms of payment are more common. The exporter simply invoices the importer after shipment, granting him a certain credit period. So, the seller extends credit to the buyer without documentary security for the buyer's indebtedness (*Jimenez, 1977*).

Despite the efficiency of "open accounts" as a payment device, it substantially increases the risk of the exporter. Its use is more common in case of trade among developed economies. For instance, 65% of USA's trade with the European Union (EU) countries in 1989,

was in terms of open accounts, whereas this mechanism was used to pay for only 6% and 3% of USA trade with Latin America and the Middles East, respectively (*UNCATD, 1994-a*). Nevertheless, an "open account" payment backed by a credit guarantee, can be as secure as "cash in advance".

"Documentary collection" is a trade-related payment mode that provides the exporter with more protection than open accounts. However, is not as safe as letters of credits (L/Cs), but significantly cheaper. In a collection process, the exporter forwards shipping documents (such as bill of lading" with a draft to the importer's bank. The importer's bank - in its turn will make sure not to permit access to the goods till the importer pays or accepts to pay the draft. In other words, documentary collection allows the exporter to retain the control of the goods till he has received either payment or an assurance of receiving payment. Nonetheless, the exporter must take the risk that the importer will not pay or accept the documents.

"Bank guarantee" or a **"standby credit"** is another payment mechanism, where the exporter agrees to grant the importer favorable terms of "open accounts", but only on the condition that the importer issues a standby credit or a bank guarantee as a payment security. If the importer fails to pay the invoice, that cash deposit will be available to the exporter (*Jimenez, 1997*).

"Documentary credits" or "letter of credit" (L/Cs), are the most widely used method of payment. It is highly recommended in case of lack of confidence or previous dealing between trading parties with L/Cs, the exporter is assured of payment upon production of constructive evidence of shipment of the contract merchandise, and the importer is confident that the exporter will not be paid if he has not met the documentary requirements. Data of USA foreign trade in 1989 shows that 76% and 69% of USA's trade with Latin America and the Middle East, respectively, were paid for by confirmed L/Cs, whereas this mechanism was used to pay for only 1% of USA trade with EU countries (*UNCTAD, 1994-a*).

On the exporter's side, the documentary system has its drawbacks in that the fulfillment of physical delivery of goods does not excuse documentary failures. When documents are processed behind schedules or contain erroneous or incomplete information, the exporter faces the risk of delayed payment of non-payment. Moreover, the exporter must have a rigorous documentary system in place, to be presented to the bank. This in particular is a problem for (SMEs). With such possible complications, L/Cs may hamper efficiency of foreign transactions.

The "International Chamber of Commerce" (ICC) always tries to boost the efficiency of L/Cs, by customizing the norms and aligned documents that control its global use. It standardized the "international

commercial terminology" that are used in L/Cs. This lowers the chances of making mistakes and misinterpretation that cause delays of payment. Currently, most commercial banks around the globe apply the rules of "UCP 500", e.g., the "Uniform Customs and Practice for Documentary Credit 500".

"Forfaiting" is another tool for export financing. It is a form of discounting practice. It is frequently used to finance foreign transactions of high-value (above $ 50,000 to $ 100,000), such as exports of capital goods, where longer repayment terms are desired. Under "forfeiting", the exporter sells the bills of exchange-usually drawn in a series with semi annual maturity - to a third party (the forfaitor).

Forfaiting operations are generally limited to bills supported by a bank guarantee. With forfaiting payment is made on the full value of the invoice price, minus the discounting charge (usually higher than the LIBOR). Forfaiting is currently operated by international banks and specialized investors centred in European markets.

"Factoring" is a broader term covering a package of diverse services offered either separately or in combination. It has emerged as an effective method of financing and credit risk inter-mediation for exporters in developing countries (*UNCTAD, 1994-a*). Credit risk assessment and financing the exporter through cash advances against

accounts receivable, are among the factoring services. Exporters tend to turn to "factoring" when other means of short-term trade finance are unavailable or inappropriate (*Jimenez, 1997*).

"Factoring" is useful in financing experienced large exporters who generate significant levels of export turnover, and who are in need to manage a continuous flow of payments by foreign customers. So, it generally helps the exporter who has a continuous flow of transactions in the foreign market.

"Buyers' Credit" is among the financial services offered by a number of the large banks. It is an indirect method of financing exports through extending finance to potential foreign importers of the Egyptian products.

II- E Cost of finance:

When it comes to cost, all banks admit that they discriminate between small and large businesses (exporters or importers) when they determine the rates of commissions on foreign trade services and interest on credit supply. Such variables have become part of the factors that ignite competition among commercial banks in Egypt. Banks are free in fixing rates of commissions on foreign trade services. Correspondingly, actual charges depend on a number of

variables such as: creditworthiness of the client and his market power, the kind and size of foreign operation, the country risk assessment, and type of the product. In most cases, large and well-known companies enjoy special rates of commissions that could get close to zero, in some cases. Bank's commissions represent around one percent - on average - of the foreign transaction value. Still, this percentage will depend on the client's bargaining power with the bank.

Many senior bankers believe that the cost of interest, though high, does not represent a big element in the total cost of large enterprises engaged in foreign trade. Consequently, interest rates do not significantly affect the business' decision. On the other hand, businessmen have a different opinion in this respect. They see that interest rates on credit facilities provided to finance foreign trade are quiet high, and discrimination is quite obvious.

All indicators show that the cost of interest is a genuine obstacle for (SMEs) who operate – usually – with very low profit margins due to the severe competition they face in certain export markets. According to estimates of businessmen engaged in foreign trade, bank's charges to process and finance a foreign trade transaction, accounts for

about 2% - on average – of its value, whereas the profit margin – in some cases – may be as low as 2%.

II-F External sources of finance:

Relatively inexpensive sources of short to medium–term pre-and post- shipment export finance are generated through a number of external credit suppliers, such as the Islamic Development Bank (IDB), and Arab Trade Financing Programme (ATFP). These sources are usually directed through local focal points or agents. Nevertheless, to maximize the potential benefits of such export financing funds, an aggressive marketing policy should be geared towards most promising export procedures with emphasize on (SMEs). Moreover, co-ordination among the national agents of these programs is indispensable.

III- Creating Adequate Environment for Efficient Trade:

Furnishing an environment adequate for promoting efficient trade-related financial and insurance products necessitates the co-operation of three major parties affecting foreign trade; namely, the government sector, the banking system, as well as the non-governmental organizations.

Government's economic policies as well as the Central Bank's monetary policy and regulations have significant direct and indirect impacts on the availability, accessibility and cost of trade – related financial services. In many countries, Central Bank's laws do not allow for the introduction of certain non – traditional financial services. Exchange central regulations in many developing countries restrict trade opportunities and stimulate inefficiency in managing financial resources.

The bank's role in providing adequate finance to promising export projects, modifying complicated documents, enhancing modern communication channels between trade parties, implementing advanced techniques of finance and payment, informing users of available credit lines, providing credit and financial advisory, etc. is a very essential wheel for driving trade efficiency.

As a linking point between foreign exporters with all their trade-related problems and governmental authorities, the non-governmental organizations (NGOs) can influence the performance of financial institutions regarding the kind and quality of services offered to exporters. Currently many (NGOs) such as local "Chambers of Commerce" or "Exporters Associations", often provide various sorts of

information, training counseling, etc. to exporters, but almost no part of such assistance is devoted to financial and insurance aspects of international trade.

III-A The role of the Central Bank:

In Egypt, bankers agree that **no limitations** are imposed by the Central Bank of Egypt (CBE) or any governmental authority on their foreign trade operations. Old restrictions that prevailed for the past few decades were abolished throughout the 1990s, as a way to encourage foreign trade and vitalize exports. In January 1991, ceilings and floors on rates of interest were removed, and the lending market became very competitive. Limitations on services' commissions were also eliminated in 1996, as a consequence of the (GATT) recommendations. Foreign exchange transfers are freely admissible. Meanwhile, the (CBE) imposes no constraint on payment devices. One restriction, however, still exists e.g., commercial banks can provide foreign exchange credit only to companies that generate foreign exchange. Therefore, foreign exchange lending is permissible –at a subsidized rate- only to enterprises operating in both sectors of exports and tourism.

The Central Bank of Egypt tries to fortify the role of banks in financing exports, through "**moral-suasion**" rather

than direct orders. The (CBE) ceases opportunities of its regular meetings with banks' representatives, to energize the export financing issue and stress the need of channeling additional financial resources towards (SMEs) with high export potentials.

III-B The role of the international trade point in Egypt:

Information on export credit opportunities and foreign trade financial devices, is part of the services supplied by the "Egyptian International Trade Point". The "Union of banks" periodically appoints one banker to work with the Trade Point. His job is to organize such information and provide advice on various financial services than can be of use to (SMEs), sources of finance, cost of credit, required guarantees, etc. Meanwhile, the Trade Point provides special financial information for the starting small businesses that acquire credit from the "Social Fund for Development".

Trade Point services' are usually of more value to (SMEs), since most of the large companies have their own sources of information. One of its unique advantages is the provision of its services in centers outside the two large cities of Cairo and Alexandria, where (SMEs) often have no access to such financial information and advice. We

envisage an ample room for co-ordination between the Trade Point and other organizations (governmental and non-governmental) that provide information on creditworthiness of potential foreign clients, pre-and post- shipment finance opportunities, credit guarantee and insurance, etc. Moreover, we believe that the Trade Point should play a more active role in assisting its clients in obtaining the appropriate mix of trade finance, guarantee, and insurance services. The Point should be able to clarify the relative advantages of new financing techniques and ways to obtain it.

IV- The Long – Run Strategy:

Senior bank official express their intention of enhancing financial services offered to (SMEs), in terms of both quality and quantity. The main perceived objectives of the long-run strategies of major commercial banks in Egypt overlap with many similarities. Major commercial banks have taken eager steps towards export promotion. The theme of that strategy focuses on establishing a separate export identity, equipped with facilities and well trained personnel who can deal with all sorts of export affairs. Services to be provided include:

- Financial consulting,

- Marketing advising,
- Creating distribution channels for Egyptian commodities,
- Fetching new sources for pre and post-shipment export credit,
- Transportation,
- Issuing and examining export-related documents,
- Addition to information centers with a complete data-base regarding export opportunities in all markets.

The (EDBE) has a strategy for expanding its major operations with particular emphasis on financing "non-traditional exports", which include services such as: construction contracts, movies, videos, books, art works, business consultations, etc. Due to the high level of risk involved in such exports, its financing requires different tools, modern management's attitudes and special training for the people who handle it.

The (CBE) does not save efforts to enhance credit availability to export oriented projects. Refinancing of export credits is one of its anticipated projects to fortify the role of the banking sector in supplying export credit.

V- Other Trade - Related Finance Problems:

Discussion with concerned officials and business people has exposed more problems:

- Many commercial banks suffer bureaucracy in dealing with documents and taking decisions. Even with irrevocable L/Cs the bank can take a long time before accepting to provide financial facilities guaranteed by the L/Cs. Such delays can hurt the exporter's reputation and may –in some cases- lead to the loss of the current and/or future business.
- The absence of other competing non-banking financing institutions in the Egyptian market, deprives (SMEs) from satisfying their needs for short-term credit. It may even drive some small enterprises to approach certain large trading companies to finance their export operations, but at relatively very high cost.
- The role of the Export Development Bank of Egypt in extending soft finance to small export industries is still weak.
- Personal contact with the bank's clients, is considered a major source of information concerning availability of financial facilities. This is mostly the case for large

companies, not (SMEs). Therefore, accessibility to finance information, could be a real problem for inexperienced businessmen who have little or no previous exposure to export operations and its handling.

- Insufficiency of trade financing opportunities in areas outside the large cities of Great Cairo and Alexandria, is another ignored problem.
- Inadequate attention is directed to the indisputable need for pre-shipment export credit guarantee.

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Chapter 6

Economic Globalization

Globalization is not a recent phenomenon. According to some historians, it started in 1870. This date was the point at which the growth rate of global trade exceeded the growth rate of global product.

This chapter deals with some basic points related to globalization phenomenon:

(1) Definition of Globalization.
(2) Stages of Globalization.
(3) Dimensions of recent Globalization.
(4) Stimulates of Globalization.
(5) Measurement of Globalization.
(6) Inequalities and Asymmetries in the Global order.

(1) Definition of Globalization

there are many definitions to globalization, some of them are as follows :

- " Globalization is the growing economic interdependence of countries worldwide through the increasing volume of cross-border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusions of technology "[1].
- " Globalization is the increased speed, frequency, and of magnitude of access to national markets by non-national competitors ".
- " Globalization refers to the growing influence exerted at the local, national and regional levels by financial, economic, environmental, political, social, and cultural processes that are global in scope"[2].
- " Globalization is a process which embodies a transformation in the spatial organization of social relations and transactions – assessed in terms of their extensity, intensity, velocity, and impact – generating transcontinental or interregional flows and networks of activity, interaction, and the exercise of power "[3].
- " Globalization is referred to as increasing and intensified flows between countries of goods, services, capital, ideas, information and people, which produce

[1] " Globalization : meaning and measurement ", 3rd Annual conference between Rand and the China reform forum, " the challenges of Globalization", Nov., 2000, p. 5 .

[2] UN, CEPAL, Globalization and Development, Brazilia, Brazil, May, 2002, p.17 .

[3] Zywietz, Danial, Measuring Globalization, Constructing a modified indicator, Maastricht, 2003, p.13.

national cross – border integration of a number of economic, social, and cultural activities "[4].

According to the previous definitions, we can summarize the basic elements of globalization in the following points :

1. Globalization is a comprehensive phenomenon. It includes not only the economic aspects, but also many other aspects such as : social, cultural, legal, political, military and environmental aspects. This is the case, because relations between nations became multilateral. People in different countries started to consume or use the same products such as Toyota Cars, Pepsi cola, Hamburger sandwiches, percil cleaner. That is to say, they are moving toward one consumption culture. Also they started to read the same novels such as Harry Potter series which has been translated into 50 languages and distributed in 90 countries. Besides, they watch the American films, play the American video games, and hear the songs of some international singers. This means that people all over the world are moving toward the same intellective culture.
   On the other hand , US, UK, and other allies send military troops all over the world under different names such as : allied troops , peace keeping troops , and UN troops. This means that even military wars undertaken by some large countries are Globalized.

[4] **UN, World public sector report. Globalization and the state 2001 , p.8.**

2. Globalization includes some inflows and outflows that take place between countries. But such flows are not considered a type of globalization except when characterized by some attributes :
   a. Extensity : flows between countries must extend to different fields. They must include not only trade of goods and services, but also movement of capital, migration of people, technology transfer, and others. Also flows must take place among different people in all countries regardless of their colour, Race, Creed, or place of birth. Movement of flows between the people of a certain region such as EU is not considered globalization but regionalization.
   b. Density: flows must take place in huge volumes. Flows of few millions or billions are not considered a type of globalization. They must represent a relatively high percentage of global GDP.
   c. Velocity: speed of flows is very important. Movement of flows must happen in a short time. Technological progress in fields of transportation and communications helps achieve quick movement of flows.
   d. Big impact: flows must practice huge impacts on the countries involved.

3. Globalization practices asymmetric effects on different countries. It may achieve gains to some countries, and losses to others. If the foreign

competitors are more competitive, they will cause losses to the local producers because of the low cost of their products, and high quality. When foreign direct investment (FDI) provides jobs to the domestic employees, train them, and transfer appropriate technology, it may achieve gains to the host country.

4. One of the expected results of globalization is the decrease of differences between domestic prices and foreign prices. That is to say, globalization leads to the increase of positive correlation between external and domestic prices over time.

5. Another effect expected from globalization is the increase of differences between ratios of national saving and domestic investment. This is the case because free capital movement across borders makes it easier for a country to finance domestic investment through foreign loans, foreign subsidies, foreign direct investment, and foreign securities. As a result , the role of national saving in financing domestic investment may decrease. In other words , since :
   Domestic investment = national saving ± net foreign saving , as the globalization degree increases, the net foreign investment increases, and the correlation of domestic investment and national saving decreases over time.

6. There is a difference between globalization and some other concepts:

- Internationalization: it refers to the growth of international trade of goods and services among nations.
- Liberalization: it denotes the process of removing officially imposed restrictions on movement of resources between countries in order to form an open world economy. However, it is not necessary that liberalization leads to globalization . This is the case, because if the economy doesn't have economic and political stability , besides appropriate infrastructure , liberalization will not induce foreign capital to come in .
- Universalization: it refers to the unification of values, cultures and experiences of people in different countries.
- Westernization: it refers to the spread of western values represented in capitalism, industrialism, materialism, urbanism, and cultural imperialism of McDonald's and CNN all over the world .

(2) Stages (waves) of globalization

Globalization is not considered a recent phenomenon. It passed through three stages :

First stage : 1870 – 1914
Second stage : 1944 – 1980
Third stage (recent stage) : 1980 until now.

However, it retreated during the period extended between the two world wars (1914 – 1944).[5]

The first stage of globalization (1870 – 1914):

The first wave of globalization was stimulated by two factors: the first was the technological progress in the field of transportation. It was represented in the switch from sail to steamship and the invention of railways. This progress led to a huge reduction in the transportation cost. The second factor was the relieving of tariff barriers imposed on the movement of goods and services among nations.

The first wave of globalization was characterized by some features. The first feature was doubling the percentage of exports to global output. This ratio increased from 4% to 8%

[5] **"The new wave of globalization and it's economic effects", http://econ.worldbank.org/files/2846_ch./pdf, pp.25-45.**

during the whole period. The opportunity was given to the exports of land- intensive primary commodities to increase in exchange for the manufactured goods.

The discovery of new land in both USA and Australia led to a huge migration of people needed to cultivate this land. Therefore, about 60 million of people migrated from Europe to both North America and Australia. And a similar number of people migrated within Asia from the crowded places such as China and India to less crowded regions such as the Philippines, Thailand, and Vietnam. The flows of migrated people during this phase were estimated as 10% of the world population.

Another feature of this wave of globalization was the huge flow of European capital toward the colonies. This foreign capital was directed to the investment in the production of primary products required by European industry such as cotton, Jute, minerals and others. Because of this movement the ratio of foreign capital stock to the GDP of the developing countries increased from 9% in 1870 to 32% in 1914. i.e. it multiplied four times approximately.

This wave of globalization led to the redistribution of total income in favor of landowners and foreigners in the developing countries and against the non- landowners. On the contrary, it achieved high profits to the industry men in the developed countries , while it ruined the landowners, especially in UK.

Retreat to nationalism (1914-1944):

During the period 1914 – 1944 three big events took place:

The first world war (1914-1918),

The great depression (1929-1933),
And the second world war (1938-1944).

These events encouraged governments to impose restrictions on free trade, and created anti-migrant sentiment on the part of the citizens. The basic features of this era were:

1. Contraction of free trade among nations. The percentage of exports to the global product fell down from 8% in 1914 to 5% in 1950.
2. Slowing down of foreign capital movement across borders. Countries of high income imposed more restrictions on their exports of capital to aboard. As a result of that, the percentage of foreign capital stock to GDP in the developing countries decreased from 32% in 1914 to 4% in 1944.
3. The flows of migrants among nations decreased dramatically. The number of immigrants to the US fell from 15 million during the first wave to 6 million during the period 1914-1950.i.e. it decreased by 60%.
4. The growth rate of the world economy decreased by the third and the number of the poor increased by 25% all over the world.

The second stage of globalization (1944-1980):

At the beginning of this period the liberalization movement started to come back. However, it was selective. The developed countries reduced the restrictions imposed on the trade of manufactured goods between themselves substantially. Also they reduced barriers imposed on the exports of the developing countries from primary products which did not compete with the agriculture in the developed

countries. But the rest of the developing countries primary and manufactured exports faced severe barriers.

Some international institutions that aimed at organizing the economic relations among nations have been established during this period. Such institutions were: International Monetary Fund (IMF) and International Bank for Reconstruction and Development known as " World Bank " (WB). They were agreed upon in 1944. At first , the World Bank focused on making loans to the governments of western Europe in order to reconstruct the infrastructure which had been destroyed during WWII. After that, the Bank shifted its lending toward the third world.

The IMF was established to smooth world commerce by reducing foreign exchange restrictions and using its funds to lend countries experiencing temporary balance of payments problems.[6]

In 1947 nations established General Agreement on tariffs and trade (GATT). The goal of GATT was to encourage trade among nations.

International trade increased to a level higher than that was prevailing in the first stage of globalization. The percentage of exports to global product increased from 5.5% in 1950 to 14% in 1980. However, both the flows of foreign capital and labor migration didn't reach the same level which was existing during the first wave.

The third stage of globalization (1980 - now):

The third wave of globalization is different from the previous two waves in the speed of transmitting the effects of

[6] Bretton Woods System., http://www.polsci.ucsb.edu/faculty/cohen/inpress/bretton.html.

events across borders. Dairy farmers in Latin America are impacted by cases of mad cow disease declared in Europe after minutes of publishing the news. Fuel prices in Asia are affected by oil workers strikes in Venezuela or Nigeria immediately after the spread of the news. The dimensions of this stage will be explained in detail in the following section .

(3) Economic Dimensions of Recent Globalization

We can differentiate between five dimensions of the recent globalization: international trade growth, international investment growth, change of labor migration, emergence of internationally integrated production system, and evolution of institutional framework for international economic relations.

(1) Growth of international trade:

International trade grew in the recent globalization era to a level higher than that was prevailing in the previous stages. The percentage of exports of global product increased from 14% in 1980 to 18% in 2000[7]. However, the industrial economies still capture the lion's share of the international trade. They represented 76% of global exports in 1998, while the developing countries represented 24%.[8]

On the other hand, the growth rate of trade differs from a group of commodities to another. In this context , we can differentiate between two groups of commodities : Dynamic products and stagnant products. Concerning the first group, it contains the products whose relative share of exports or imports increases over time, while the second group contains the commodities whose relative share of international trade decreases over time.

In addition, the traded goods can be divided into five groups according to their technological content: ordinary products (have no technological content), natural resource-based manufactures, low- technology manufactures, Mid-

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[7] **The new wave of globalization, op. cit, p, 23**

[8] **UN, Globalization and Development, op. cit, p. 31.**

level technology manufactures, and high- technology manufactures.

Table (1-1) shows the growth directions of all these groups of commodities during the recent globalization era.

Table (1-1)
Dynamic and stagnant products in world imports 1985-2000 Four- digit SITC, Rev. 2 weighted (% of total imports)

	Dynamic Products				Stagnant Products				Net increase or reduction
	Number of items	1985	2000	Increase	Number of items	1985	2000	Loss	
A. By technological category									
Ordinary commodities	15	0.7	0.8	0.1	132	22.5	11.6	-10.9	-10.8
Natural resource-based manufactures	65	5.3	6.8	1.6	134	14.3	8.9	-5.4	-3.8
Low-technology manufactures	71	7.3	10.8	3.5	90	7.1	4.9	-2.2	1.3
Mid-level technology manufactures	91	16.7	21.1	4.4	111	11.8	8.6	-3.3	1.1
High- technology manufactures	45	9.5	21.6	12.2	21	2.2	1.3	-0.9	11.3
Unclassified products	4	1.4	2.8	1.4	7	1.4	0.9	-0.5	0.9
Total	291	40.8	63.9	23.1	495	59.2	36.1	-23.1	0.0
B. By SITC classification									
Food and lives animal for food	17	1.1	1.4	0.3	77	7.5	4.3	-3.3	-2.9
Beverages and tobacco	4	0.3	0.3	0.1	7	0.7	0.6	-0.2	-0.1
Crude materials, inedible, except fuels	8	0.1	0.1	0.0	96	6.1	3.4	-2.7	-2.6
Mineral fuels, lubricants and related materials	2	0.1	0.1	0.0	18	17.2	8.6	-8.6	-8.6
Animal and vegetable oils, fats and waxes	3	0.0	0.1	0.0	15	0.6	0.3	-0.3	-0.3
Chemicals and related products	39	3.6	6.0	2.4	56	4.5	3.3	-1.2	1.3
Manufactured goods classified by material	76	6.5	7.9	1.4	115	9.1	6.1	-3.1	-1.6
Machinery and transport equipment	89	22.0	35.6	13.6	70	7.9	5.6	-2.3	11.3
Power generating machinery and equipment	9	1.6	2.3	0.7	10	0.5	0.4	-0.2	0.5
Machinery specialized for particular industries	6	0.9	1.1	0.2	22	1.9	1.3	-0.6	-0.4
Metalworking machinery	4	0.3	0.3	0.0	4	0.4	0.3	-0.1	0.0
General industrial machinery and equipment	16	1.9	206	0.7	11	1.2	1.0	-0.2	0.6
Office machines and automatic data processing equipment	7	2.4	6.0	33.6	4	0.4	0.3	-0.2	3.4
Telecommunications and sound recording apparatus	6	1.6	3.7	2.1	6	1.2	0.8	-0.3	1.8
Electric machinery, apparatus and appliances	25	4.7	9.8	5.1	0			0.0	5.1
Road vehicles, including air cushion vehicles	8	7.6	8.1	0.6	5	1.5	1.1	-0.4	0.2
Other transport equipment	8	1.1	1.6	0.6	8	0.7	0.3	-0.3	0.2
Miscellaneous manufactured articles	52	5.8	9.6	3.9	36	4.7	3.6	-1.1	2.8
Commodities and transactions not elsewhere classified	2	1.3	2.7	1.3	4	1.0	0.5	-0.6	0.8

Source : ECLAC, TradeCAN2001, on the basis of the International Commodity Trade Data Base (COMTRADE) data.

According to the data of table (1-1), we find out the following:

1. Both the ordinary commodities, and the natural – resource based manufactures are classified as stagnant products. The number of stagnant commodities in this group reached 266, while the number of dynamic ones was 80. The share of this group in the imports decreased by 15 points during the period 1985-2000. This means that the relative share of the commodities in which the developing countries are specializing is decreasing in world trade.
2. The high –technology manufactures had the highest growth rate in the international trade. On one hand, this group is classified as dynamic one, where the dynamic items within it reached 45 and represented 21.6% of global imports. While the stagnant items reached 21 and represented 1.3%. On the other hand, the relative share of high-technology manufactures as a whole increased by 11.3 points of global imports, which is considered the highest ratio among all.

   This means that the high technology is considered the basic drive of international trade growth in the era of recent globalization. And it is concentrated basically in the developed countries.
3. On the other hand, the relative share of both the agricultural products and the non-food primary products in the global trade had decreased during the stage of recent globalization. Besides, the competition of the industrial substitutes to the primary raw materials had increased. As a result, the international terms of trade of primary products deteriorated
4. According to one study , the international terms of trade for 24 non-oil primary products deteriorated

during the period 1900-2000 until they reached one third of the level prevailing before 1920. This deterioration was equivalent to a continuous decrease of the terms of trade at an annual rate of 1.5% for 80 years. Such result assures that the developing countries which are specialized in primary products are big losers in the era of recent globalization.

However, not all developing countries have been affected in the same way by the recent globalization. They can be divided into two groups in this context: More Globalized and Less Globalized.

Concerning the first group, it contains the countries whose relative share of international trade has increased, such as: China, Mexico, Argentina, the Philippines, Malaysia, Bangladesh, Thailand, India and Brazil. While the second group contains the countries whose relative share of international trade has decreased, such as Pakistan, Kenya, Togo, Honduras, Senegal, Nigeria, Egypt and Zambia.

Table (1-2) exhibits some characteristics of each group.

Table (1-2)
Characteristics of More Globalized and less Globalized Developing economies
(Population- weighted averages)

Socioeconomic characteristics	More Globalized (24)	Less Globalized (49)
Population, 1997 (billions)	2.9	1.1
Per capita GDP, 1980	$1488	$1947
Per capita GDP, 1997	$2484	$2144
Inflation, 1980 (percent)	16	17
Inflation, 1997 (percent)	6	9
Rule of law index, 1997 (world average = 0)	-0.04	-0.048

Source: The new wave of globalization ......, op .cit p.35.

It is clear that the population of the More Globalized group represented 72.5% of the total population of developing countries, while the population of the Less Globalized group represented 27.5%. On the other hand, the real per capita income in the More Globalized group grew at a rate higher than that in the less Globalized group. The annual growth rate in the former was 3% over 17 years, while it was 0.5% in the latter. Besides, the inflation rate decreased in the More Globalized group faster than that in the less Globalized group. While the rule of law index in both groups was lower than the world average, it was higher in the first group than in the second group.

We conclude that the developing countries which managed to adapt their economies to cope up with globalization succeeded in performing well , while those

which could not adjust their positions have been affected adversely by globalization.

(2) Foreign capital flows:

The foreign capital flows contain some elements such as: foreign loans, official assistance, securities, and foreign direct investment (FDI). The foreign capital inflows to the developing countries increased during the third wave of globalization from 28 billion dollars in the seventies of the 20th century to $306 billion in 1997[9]. I.e. they multiplied 13 times within a period less than 30 years. However, the official flows of capital in form of assistances and grants had decreased to the half, while the private foreign capital flows had increased dramatically. Despite that, the stock of foreign capital in the developing countries didn't reach the same level prevailing in the first wave of globalization. It represented 22% of GDP in 1998, while it was 32% in 1914.

On the other hand, statistics showed that FDI had tripled on the international level during ten years 1988-1998, where it increased from $192 billion to $610 billion[10]. However, the highest percentage of FDI outflows came from the developed countries, and the highest percentage of FDI inflows went to the developed countries. In 2000 the percentage of FDI outflow coming from the developed countries was 71%, while the percentage of FDI inflow going to them was 82%. And this means that, the developing countries got 18% only of FDI inflows.

[9] The new wave of globalization ————, op .cit, p. 42.
[10] UN, World public Sector Report, globalization and the state 2001, p. 14.

Besides, most of the FDI directed to the developing countries concentrated in few number of countries, such as: Hong Kong, China, India, Mexico, Brazil, and Argentina[11].

Another feature of the recent globalization was that FDI became spread over a larger number of countries. In 2000 FDI inflows of $10 billion and more were spread over 50 countries, in comparison with 17 countries before 15 years.

FDI inflows grew at different rates in different sectors. Its growth rate in services sector was higher than those in both primary and industrial sectors, as shown in table (1-3).

Table (1-3)
FDI Inflows
(Millions of dollars and percentages)

Sector	Developed countries		Developing countries		World	
	1988	1999	1988	1999	1988	1999
Primary	10.3	5.7	13.7	5.4	10.7	5.6
Industry	39.4	36.4	65.0	54.5	42.4	41.6
Services	46.9	55.5	20.7	37.3	43.9	50.3
Unspecified	3.4	2.4	0.6	2.8	3.0	2.5
Total	890,456.0	2,520,194.0	119,016.0	1,014,657.0	1,009,472.0	3,534,851.0

Source: United Nations conference on trade and development (UNCTAD), World investment report, 2001 (UNCTAD/WIR/ (2001)), tables A.II.3 and A.II.4, Geneva, 2001. United Nations publication, sales No. E.01.II.D.12.

It is clear from the table that the relative share of services sector in the global FDI increased from 44% to 50.3% during the period 1988-1999. However the relative share of the primary sector in world FDI decreased from 10.7% to 5.6% during the same period, and the relative share of the industrial sector decreased from 42.4% to 41.6%. This may be due to the fact that privatization programs that took place in the developing countries during the 1980's and 1990's gave the opportunity to FDI to enter in financial services,

[11] UN, globalization and development, op. cit, p.43.

telecommunications and other components of infrastructure intensively. Besides, the emergence of new marketable services such as: the production of computer programs, data processing, telephone calling centers, and others opened a new field in front of foreign centers which had more experience in these services.

According to the available data, the degree of FDI geographical concentration is correlated positively with the level of it's technology content. That is to say, the high technology FDI is concentrated in less number of countries, especially developed countries. While the low technology FDI is spread over more number of countries, especially the developing countries. Table (1-4) shows this relationship.

Table (1-4)

Geographical Concentration of Foreign Subsidiaries In Selected Manufacturing industries, by technology- intensiveness, 1999

(Share of total number of subsidiaries)

Share of total industry	High technology		Mid-level technology		Low technology	
	Semi-conductors	Bio-technology	Auto-mobiles	Radio and television	Food and beverages	Textiles
First 3 recipient countries	0.496	0.627	0.294	0.356	0.237	0.287
First 5 recipient countries	0.629	0.71	0.44	0.502	0.353	0.401
First 10 recipient countries	0.787	0.852	0.71	0.696	0.561	0.601
First 20 recipient countries	0.945	0.953	0.884	0.893	0.747	0.795
Memorandum:						
Total number of foreign subsidiaries b/	272	169	1296	253	2250	1445
Total number of recipient countries	31	28	55	36	101	77

Source: United Nations Conference on trade and development (UNCTAD), world investment report, 2001(UNCTAD/WIR/ (2001)), tables II.6, Geneva, 2001. United Nations publication, sales No. E.01.II.D.12.

a/ Calculated as a proportion of the total number of each industry's foreign subsidiaries throughout the world.

b/ only subsidiaries identified as primary foreign – owned.

It is clear from the table that the first 3 recipient countries of the largest relative shares host a percentage of the FDI subsidiaries ranges between 49.6% - 62.7% in the high technology manufacturing industries, 29.4% - 35.6% in the mid-level technology, and 23.7% - 28.7% in the low technology . this assures the fact that geographic concentration of the foreign subsidiaries is higher in the high technology manufacturing than in the low technology manufacturing.

(3) The Emergence of the internationally integrated production system:

The expansion of the multinational corporations aboard through FDI in the recent era was accompanied by the emergence of internationally integrated production system. Under this system, there is no multi-component commodity is produced within one country. But different components are produced in different countries. Each country specializes in producing the component in which it has an absolute advantage. i.e. it specializes in the components that it can produce at a lower cost. In this way the countries which have relative abundance in unskilled labor don't specialize in producing labor – intensive commodities, but in producing labor – intensive components.

The multinational corporations establish their subsidiaries in many countries, in such a way that each subsidiary specializes in producing one component at a large scale. Then these components are traded between different countries through these subsidiaries. The assembly of these components results in global product, not a national product. In this way there will be an integration between international trade and foreign direct investment.

The practice in this context shows that the industrial operations of simple parts whose technology content is low, are concentrated in the developing countries. While the complicated operations whose technology content is high, are concentrated in the developed countries.

FDI takes place in two ways: erection of new units in the host country or merger and acquisition of existing units. One of the features of recent globalization wave is the growth of

merger and acquisition by the multinational corporations. And this supports the monopoly position of these corporations on the regional and international levels.

(4) Change of the international migration:

Although the restrictions imposed on the international migration in the recent globalization stage have been reduced in comparison with the second stage, the movement of migration is still under the level which was prevailing during the first wave of globalization. The number of migrants is estimated to be 120 million, which represents 2% of world population. This percentage is less than the one which was prevailing during the first wave of globalization (10%).

Half of this number is living in the developed countries, while the other half is living in the developing countries. The migrants practice more pressure on the developed countries than on the developing countries. This is the case, just because the number of population of the former is a quarter of that of the latter.

There are many reasons behind the international migration. However , the most important reason is the wage gap between different countries. In 1995, the wage per hour in the German manufacturing industry was $30, while it was 30 cents in both China and India. I.e. it represented 1% in the latter of that of the former. In Indonesia the wage of worker per day was 28 cents, while it was $2 in Malaysia. I.e. the wage in the former represented 14% of that in the latter.

Migration achieves some benefits to the motherland. One of these benefits is the remittances transferred by migrants to their families in the homeland. In 1999 these remittances were estimated by $12 billion in India, $6.5 billion in

Mexico, and $4 billion in Egypt. Another type of benefits is the commercial and investment relations that can be established between the host countries and homelands through migrants. One distinguished example of this type of benefits is the economic relations that have been established by the Chinese migrants between Thailand, Malaysia, Indonesia and their homeland China.

(5) Development of the institutional framework of international economic relations:

We can differentiate between two types of development that took place in the institutional framework of international economic relations:

Developments in the role of World Bank and IMF, and the emergence of world trade organization (WTO).

A. Developments in the role of world bank and IMF:

The policy that World Bank followed until 1979 was to give loans required to finance Development Projects in the developing countries. This policy was termed "Project Approach". But after the second oil crisis in 1979, which accompanied the war between Iran and Iraq, the role of World Bank turned to the level of economic policy. This role was related to the economic performance of the society as a whole rather than to specific projects . Since then this role was termed "policy Approach"[12]. Under this approach, the World Bank was to offer loans to the developing countries which were suffering from a deficit in the balance of payments or a crisis of external debt. These

[12] Kulessa, Margarita E., " the Economic and social Effects of structural Adjustment policy: Theory and practice ", Economics, volume 58, 1998, p. 48.

loans were offered to implement economic reform programs in these countries. In this way the roles of both WB and IMF were overlapping. This is the case, because the original role of IMF was to offer loans to the countries suffering from a deficit in the balance of payments. Besides , they were oriented more more toward serving globalization purposes.

During the period 1980-1995 the World Bank offered 350 loans of $350 billion to 80 countries.

Both the World Bank and IMF introduced two programs for the economic reform: Sectoral Adjustment Program (SECAP) and Structural Adjustment Program (SAP). While SECAP stressed the reform of one sector or two, SAP dealt with the reform on the macro level.

According to SAP, in order to get loans for reform, the government must implement a package of conditions over a period of 3 years. The installments of the loans are tied to the steps of program implementation. These conditions are as follows:

i) Economic stabilization conditions:

There are two divisions to the economic stabilization : External and internal. External stabilization refers to a significant reduction of balance of payments deficit, while internal stabilization refers to the control of inflation.

The conditions that must be followed in this context are:

- Following a contractive fiscal policy through reducing government expenditure and increasing taxes. This policy is supposed to reduce aggregate demand, decrease imports, improve balance of payments position, and reduce inflation.

- Following a contractive monetary policy:
  This policy contains reducing the quantity of money, and raising the interest rate. The expected result is a decrease in the aggregate demand.
- Devaluation (domestic currency floating) . This procedure is supposed to encourage exports, discourage imports, and improve the balance of payments position.

ii) Structural Adjustment conditions:

According to the World Bank, structural adjustment means "to get prices right": The conditions required in this context are:-

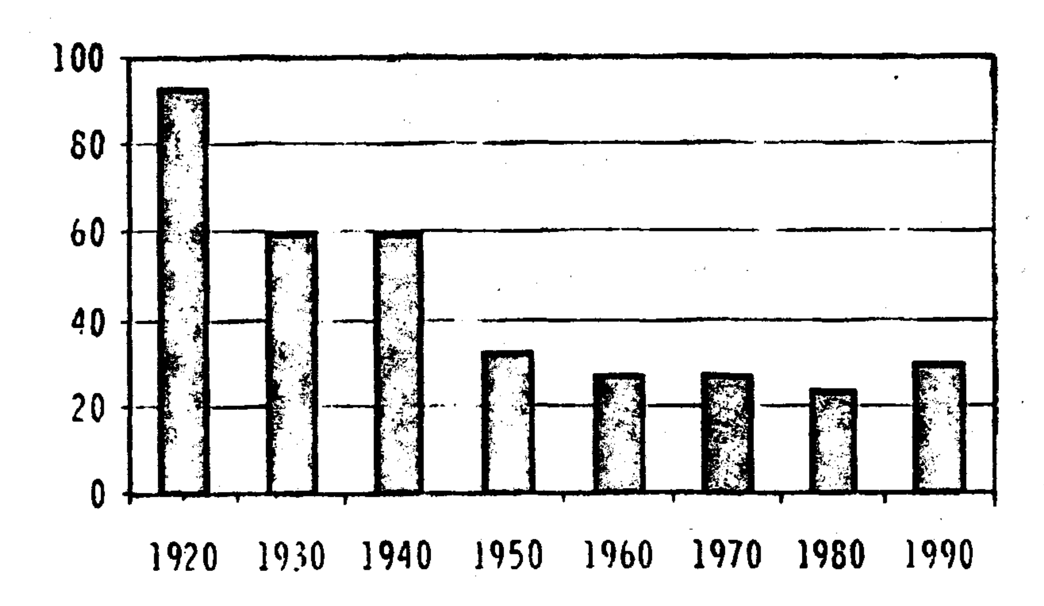
- Deregulation, which includes removing restrictions imposed on free trade, letting prices be determined according to the supply and demand in free markets, and removing government subsidies.
- Privatization.
- Developing the capital markets.
- Developing the managerial performance.

B) The emergence of world trade organization (WTO):

In 1994 WTO was established. It's final goal was to remove all restrictions imposed on trade among nations. The emergence of this organization expedited the third wave of globalization.

(4) Stimulates of Globalization

There are many factors that stimulated globalization, especially in the recent stage. One of the important elements was the radical decrease of transportation and communication cost caused by rapid technological progress. The average cost of freight and post charges per ton has decreased from over $90 to $30 constant dollars between 1920 and 1990 by 67%, as shown in graph (1-1).

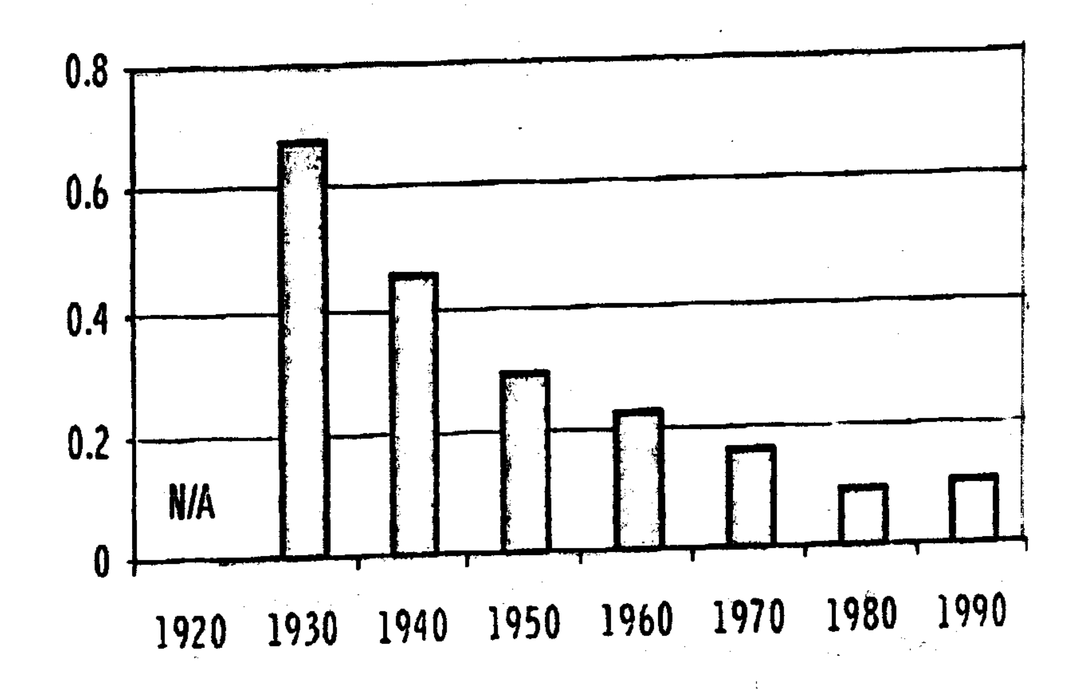


Source: IMF, 1997

Graph (1-1)

Besides, the average revenue per passenger mile (via air) has decreased from 70 cents to 10 cents by 86%, during the period 1930-1990, as shown in graph (1-2)[13].

Declining Air Transportation cost since 1930 in US$
(average revenue per passenger mile)



Source: IMF, 1997

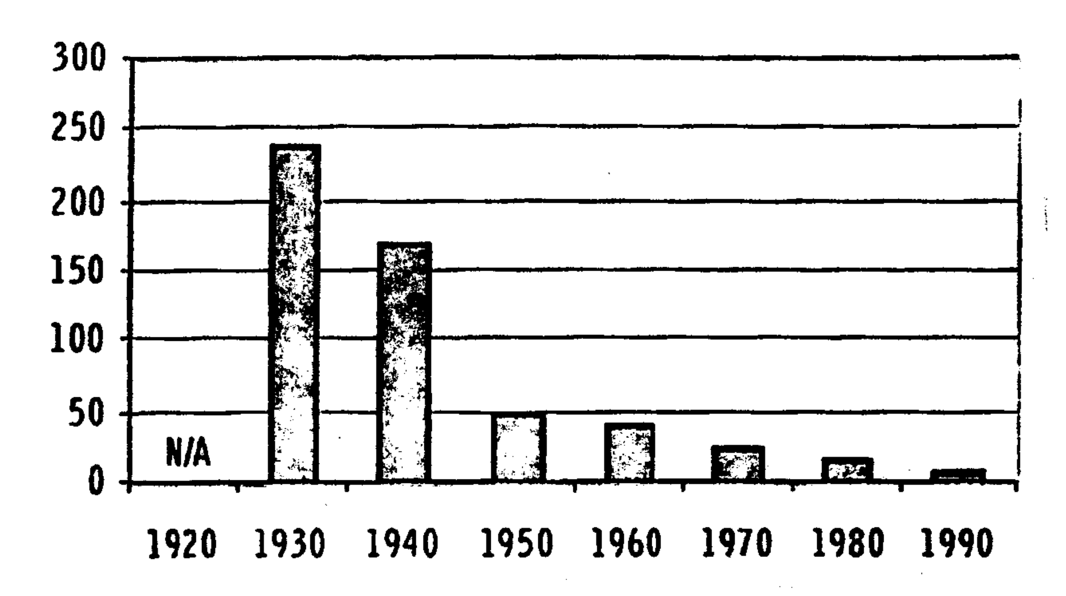
Graph (1-2)

Moreover, a three minute call between New York and London has decreased from $300 to less than $1 over the same period as shown in graph (1-3), and it can be done now free over the internet.

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[13] **UN, world public sector report, Globalization and the state 2001, pp 10-11.**

Declining Telecommunication costs since 1930 in US$
(3 minutes NY/London)



Source: IMF, 1997

Graph (1-3)

Another factor that stimulated globalization was the liberalization movement which accompanied the development of the institutional framework of international economic relations. Tariffs have been reduced, prices have been freed, and the share of private sector has been increased.

The adoption of internationally integrated production system by multinational corporations all over the world stimulated globalization dramatically. According to this system, the production operations of multi-component commodities are spread in many countries. Each country is specialized in producing the component in which it has an absolute

advantage. This system of production stimulated integration among different economics.

Besides, the rapid growth of internet facilitated communications among the people in different countries. According to some studies, the number of internet sites rose by 118 % in only two years (1997-1999)[14].

[14] **UN, world public sector report, ————.op. cit, p.10.**

(5) Globalization Measurement

Development of globalization index is very important for many reasons: it helps determine the growth rate of globalization over time. Also , It can be used in estimating the relationship between the globalization, the factors that affect it, and the factors which are affected by it.

We can differentiate between two globalization measures: trade globalization measures and capital globalization measures.

A) Trade globalization measures:

There are many indexes that can be used in measuring trade globalization, two of them are:

$$\text{Exports index} = \frac{\text{Global exports}}{\text{Global Gross Product}} \times 100 \quad \text{———— (1)}$$

$$\text{Trade index} = \frac{\text{(global exports + global imports)}}{\text{Global Gross product}} \times 100 \quad \text{—— (2)}$$

According to these two measures, the higher the export index (trade index), the wider the globalization.

B) Capital Globalization measures:

One of the important measures of capital mobility or international financial integration is Fledstein - Horioka coefficient[15].

[15] Rocha, F.e Zerbini, M.B, using a panel structure to discuss the Fledstein – Horioka puzzle in developing countries, JEL, pp. 3-4.

This coefficient measures the correlation between the domestic investment and the national saving. The weak correlation between both of them using cross – section data refers to the fact that different economies depend heavily on the foreign capital to finance the domestic investment. And this reflects a high degree of financial integration between countries. On the other hand, the strong positive correlation between the domestic investment and national saving refers to the fact that countries depend heavily on the national saving to finance the domestic investment, while the role of foreign capital is minimal. And this reflects a low degree of financial integration among countries.

Fledstein and Horioka used the following from to measure the coefficient of financial integration between a sample of countries:

$$(I/Y)_i = a + b(S/Y)_i + ui \qquad (3)$$

Where:

$\left(\frac{I}{Y}\right)_i$ =Domestic investment (I) Ratio to GDP (Y) of country i

$\left(\frac{S}{Y}\right)_i$ =National saving (S) Ratio to GDP (Y) of country i.

a = The intercept.
b = Fledstein – Horioka coefficient.
u_i = Random error term.

- When b = 0, this means that there is no correlation between domestic investment and national saving. That is, all domestic investment is financed by foreign

capital. This refers to a case of full financial integration among nations.

When: b=1, this means that all domestic investment is financed by national saving, while the foreign capital has no role. This result refers to the case of no mobility of foreign capital across borders.

However, 0 and 1 are extreme values that may not happen in the real world . It is more realistic to assume that the value of " b" ranges between o and 1 .

The measurement of "b" at different points of time shows the growth trend of capital globalization over time. If it is increasing over time this means that capital globalization is going down . But if it is decreasing over time this means that capital globalization is going up.

(6) Inequalities and asymmetries in the global order

The benefits of globalization are not distributed evenly between different nations. Nowadays, 3 billion people live on less than $2 a day. That is to say, 50% of world population are living under poverty line. While the richest 20% of population get 80% of the global GDP, 80% of world population get 20% of the global GDP[16].

There are many signs of asymmetries under recent globalization wave that can be summarized as follows:

1. increasing income gap between developed and developing countries:

   Per capita GDP in the less developed regions of the world was around 34% of that in the less developed regions in the early 19th century. In 1998, the former dropped to 5% only of the latter, as shown in table (1-5).

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[16] UN, world public sector Report ———, op. cit, p. 14.

Table (1-5)

Patterns of interregional disparities

	1820	1870	1913	1950	1973	1990	1998
A. Per capita GDP, by region							
Western Europe	1.232	1.974	3.473	4.594	11.534	15.988	17.921
United States, Australia, New Zealand and Canada	1.201	2.431	5.257	9.288	16.172	22.356	26.146
Japan	669	737	1.387	1.926	11.439	18.789	20.413
Asia (excluding Japan)	575	543	640	635	1.231	2.117	2.936
Africa	418	444	585	852	1.365	1.385	1.368
World	667	867	1.510	2.114	4.104	5.154	5.709
B. Interregional disparities (percentages)							
Less-developed region/more-developed region	33.9	18.3	11.1	6.8	7.6	6.2	5.2
C. Regional share of world production (percentages)							
Western Europe	23.6	33.6	33.5	26.3	25.7	22.3	20.6
Western offshoots	1.9	10.2	21.7	30.6	25.3	24.6	25.1
Japan	56.2	36.0	21.9	15.5	16.4	23.3	29.5
Africa	4.5	3.6	2.7	3.6	3.3	3.2	3.1

Source: ECLAC estimates based on data from Maddison (2001).

It is clear that the relative share of western offshoots (US, Australia, New Zealand and Canada) of Global GDP had increased twelve times at the end of the 20th century in comparison with that at the beginning of the 19th century. However, the relative share of Asia without Japan had decreased to the half.

2. Extreme concentration of technical progress in the developed countries:

Although 85% of world population live in the developing countries, their relative share of the world technological infrastructure is very low, as shown in table (1-6).

Table (1-6)
International asymmetries: share of developing Countries in the world economy
(Percentages of the world total)

	1990	1999
Population	84	85
Gross domestic product (current dollars)	22.3	23.8
Gross domestic product (purchasing power parity)	43.6	46.9
Gross fixed capital formation (1995 dollars)	23.9	24
Industrial value added in 1998 (1995 dollars)		27.5
Rights granted to resident	1995	1999
Patents	6.1	8.7
Designs	15.3	11
Trademarks	33.9	21.9
Market quotas by categories of technological intensity	1985	2000
Primary products	62	59.6
Resource-based manufactures	31.3	31.8
Low-technology manufactures	33.6	50.3
Medium- technology manufactures	10.8	21.4
High-technology manufactures	16.8	16.6
Other transactions	28.8	41.6

Source: Calculos de la CEPAL sobre la base de Banco Mundial, Indicadores del desarrollo Mundial, Washington, D.C., version en CD-ROM, 2001; dases de datos de la Organizacion de Cooperacion y Desarollo Economicos (OCDE), Organizacion Mundial de la propiedad Intelectual (OMPI), Comunidad Andina y fortune, 2001.

It is clear in the table that the relative share of the developing countries in the primary products reached 60%, and increased to 50% in the low-technology manufactures, but it is still relatively low in the high-technology manufactures (16.7%) and medium-technology manufactures (21.4%).

Chapter 7
Economics of privatization

Privatization as a term appeared for the first time at the end of the 1970,s. UK under Tacher was the first country to adopt privatization programs. It had been followed by many developed countries such as: France, Italy, Spain, Canada, and others.

Privatization has switched to developing countries such as: Argentina, Brazil, Chile, Bangladesh, Pakistan, Turkey, Egypt, and others. Transition economies represented in the former Soviet Union and Eastern and central Europe followed ambitious privatization programs. By 1995 the number of enterprises that have been privatized reached 100000 spread in 80 countries.(1)

This chapter deals with some basic points related to privatization:

(1) Defination of privatization.
(2) Goals of privatization.
(3) Measurement of privatization.
(4) Evaluation of privatization programs.

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(1) Martin, B, "The Social and Employment Consequences of Privatization in Transition Economies: Evidence and Guidelines". http://www.ilo.org/public/English/employment/ent/papers/ippred4.htm, pp. 4-5.

(5) Privatization program in Egypt.

I- Privatization Definition:

There are many definitions to privatization, some of them are as follows:

- "It refers to any situation in which a function formerly carried out by a government body is transferred to a non-government body, including some forms of deregulation wherein command – and – control regulations are replaced by market – style incentives, such as tradable permits or property rights".[2]
- "Any shift of activities or functions from the state to the private sector, and, more specifically any shift of the production of goods and services from public to private".[3]
- "Increasing the efficiency of operating and managing the public enterprises through activation the market mechanism and removing bureaucracy practices".[4]

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[2] Mc Fetridge, D.G, The economics of privatization, Toronto: C.D. Howe Institute, 1997, P. 3.
[3] Starr, Paul, The Meaning of privatization, http:// www.princeton-edu/starr/meaning.html, P. 5.
[4] Zaki, Ramzi, "Privatization and economic reform in Egypt", National Planning Institute. June 1994, P. 194.

According to the previous definitions, privatization includes some basic elements as follows:

(1) Privatization implies the transfer of the ownership of some enterprises from the public sector to the private sector. This transfer can be done through many methods such as: selling the public assets to an anchor investor, public offering in the stock market, selling to the employee associations, distributing vouchers on the public, retuning the confiscated assets to the original owners, and others.

(2) Private sector contains all non-governmental units, whether they are profit–organizations or non-profit organizations. Therefore, the transfer of a public enterprise to the ownership of a non-governmental non-profit organization is considered privatization. However, the transfer of a non-governmental non-profit organization to a profit-organization is not considered privatization, but commercialization. This is the case, because this is a transfer within the private sector from a unit to another.

(3) A very important element in privatization is the activation of private sector principles and values such as: targeting profit, adopting incentive system in production and management, and using economic

prices in calculating costs and benefits. Therefore, leasing a public enterprise to a private management is considered privatization, even under the public ownership of the unit.

(4) Participation of the private sector with the public sector in the ownership and management of the public enterprise is considered a type of privatization. If the relative share of the private sector exceeds 50% of the ownership, this is called majority privatization, and if it is less than 50%, it is called minority privatization.

(5) There is a difference between liberalization and privatization. Liberalization means reduction or removal of government restrictions imposed on the entry of private units to the market. It is usually accompanied by more competition. Sometimes privatization comes through liberalization. This happens when the government cancels a concession given to a public enterprise working for example in electricity, telephones or any public service, and opens the market in front of private units to compete with each other in these fields.

However, privatization may take place without liberalization or competition. This happened when the

British government transferred the concession of British Telecom and British Gas to two private companies, one for each. In this case the private monopoly replaced the public monopoly, and the privatization took place without more liberalization or more competition.

(6) Privatization may take place without deliberate steps on the part of the government. When the government investment in building schools and hospitals doesn't expand at a rate high enough to satisfy the demand for education and health care, the private sector may invest more in these fields to cover the shortage. In this case, the relative share of the private sector in education and health care services increases. And this is called demand driven privatization.

(7) There is a difference between growth-privatization and transfer-privatization. The former refers to the normal increase in the private sector relative share in the economy as a result of deliberate government liberalization policies. This type of privatization takes place without direct transfer of ownership from the public sector to the private sector. However, the transfer-privatization is the one that results from

shifting the ownership of public assets to the private sector units.

(8) In order to succeed, privatization needs adjusting and restructuring the economic environment to become more consistent with the mechanism of free market. Steps required to implement such adjustment are:

(A) Reducing or removing the government restrictions imposed on prices gradually, including interest rates and exchange rates. Free prices are required to calculate the real cost.

(B) Increasing the degree of competition between both the private units and public units. This requires removal of protection and subsidies given to the public enterprises by government. It requires also splitting the public monopoly in some fields to many private firms.

(C) Reforming the stock market in order to be capable of transferring ownership from the public sector to the private sector, through public offering of shares.

(D) Reforming the banking system in order to be capable of facilitating the flows of cash from the surplus units to the deficit units.

(E) Establishing a new legislative system characterized by elasticity and sharpness.

(F) Training managerial and technical elements who will lead the reform process.

(9) Privatization requires rehabilitating some public enterprises before transferring them to the private sector. Some public units may suffer from a high burden of debt, a high loss, a shortage in finance, and managerial and technical troubles. Rehabilitation means mending all previous defects.

(10) Privatization doesn't mean a complete liquidation of the public enterprises. It is usually restricted to a part of the public sector. However, there are no objective criteria accepted by all parties that can be used in determining the public units to be privatized. But there are some indicators derived from the experience of nations that can benefit in this matter:

(A) The public sector contains two sections: commercial section and non-commercial section. Concerning the former, it contains the units which achieve the highest percentage of their receipts from selling goods and services. The state plays the role of

producer or trader in this section. With respect to the latter, it contains the institutions which offer basic social services such as: education, health, justice, defence, police, and the like. Privatization is to be concentrated basically in the commercial section. However, it may extend to some services of non-commercial section such as education and health.

(B) There are some parts of the commercial section that must not be subjected to privatization, such as: natural resources: oil, minerals and the like. These resources are supposed to be publically owned.

(C) There are some strategic enterprises that must be kept under the control of the public sector, such as: weapons factories, petrochemical industries and the like.

(11) Privatization practices negative social effects on some groups of the economy such as workers. Many employees lose their jobs because of privatization. Therefore, privatization programs must include some policies that alleviate those negative effects, such as retraining fired employees to be able to join other jobs, giving them the opportunity to participate in the ownership of the privatized units,

and lending them loans that enable them to start new businesses.

II- Goals of Privatization:

There are many goals of privatization programs in the developing countries. Some of those goals are as follows:

1) Improving the efficiency of public enterprises. Many studies showed that the inefficiency in the public units are due to the separation of ownership from management, imposing prices which don't reflect cost, nominating employees over the required numbers, and protecting the public units from competition.

2) Reallocation of resources in favor of the private sector, which leads to the increase of productivity and profit rates, and achieves better utilization of resources.

3) Reducing the government budget deficit, through removing the Subsidies granted to the public enterprises, and collecting profit taxes from privatized units.

4) Reducing the balance of payments deficit through increasing exports of privatized enterprises after reform.

5) Increasing the growth rate of the economy through improving the efficiency of the privatized units, investing the receipts of privatization in erecting new enterprises, and encouraging the idle savings to be used in owning the privatized units.

6) Improving the distribution of income and wealth in favor of the low-income and middle-income groups, through giving them the opportunity to participate in the ownership of the privatized units.

7) Getting rid of corruption found in the public units and increasing transparency.

8) Stimulating the private sector to participate in establishing the infrastructure projects such as roads, airports, electricity, communications and others. This may improve the quality of public services offered to people and alleviate the economic burden imposed on the government.

9) Achieving more integration between the national economy and the international economy through removing the restrictions imposed on international trade and foreign capital movement. And this may improve the international competitiveness of

domestic enterprises and increase their capability of exporting.

III- Measurement of Privatization:

One of the criteria used in measuring privatization is the receipts of sold public assets within privatization programs. It is a measure of privatization program size.

$$TPV = \sum_{i=1}^{n} Tvi \qquad (1)$$

Where:

TPV = Total receipts of privatization

Tvi = the value of the privatized asset i

n = the number of privatized assets

Another criterion is the ratio of total receipts of privatization to the total value of assets owned by the state. This determines the percentage of assets which have been transferred from the public sector to the private sector.

$$Rp = \frac{TPV}{TV} \times 100 \qquad (2)$$

Where:

Rp = the ratio of privatized assets

TV = Total value of public assets

A third criterion is the development capability index. It refers to the number of new projects that can be erected through investing the privatization receipts.

$$nv = \frac{TPV}{I} X 100 \qquad (3)$$

Where:

I = Investment cost of a medium size industrial project

nv = number of medium size industrial projects that can be established through the privatization receipts

However, TPV may not reflect the actual size of privatization program because some public enterprises are transferred free to the public or to the employees, and others are underestimated as a result of corruption.

Table (7-1) shows the total receipts of privatization in some countries.

Table (7-1) Amounts Raised from Privatization, Various countries 190 - 97

	1990	1991	1992	1993	1994	1995	1996p	1997e
	(millions of current US dollars)							
Australia	19	1,267	1,893	2,057	2,046	7,966	9,580	7,100
Austria	32	48	49	142	700	1,035	1,251	1,600
Belgium	-	-	-	956	549	2,681	1,221	900
Canada	1,504	808	1,249	755	490	3,803	1,762	2,000
Czech Republic	-	-	-	-	1,077	1,205	994	700
Denmark	644	-	-	116	2,815	12	382	100
Finland	-	-	-	229	1,166	363	911	100
France	-	-	-	12,160	5,479	4,136	5,099	5,300
Germany	-	325	-	435	240	-	13,273	2,600
Greece	-	-	-	-	-	-	529	1,500
Hungary	38	470	720	1,842	1,017	3,813	880	1,000
Iceland	-	-	21	10	2	6	-	-
Ireland	-	515	70	274	-	157	293	-
Italy	-	-	-	1,943	6,493	7,434	6,265	6,600
Japan	-	-	-	10,060	5,762	-	6.379	8.700
Korea (South)	-	-	-	817	2,435	480	1,849	1,700
Luxembourg	-	-	-	-	-	-	-	-
Mexico	3,124	10,754	6,866	2,503	766	170	72	1,900
Netherlands	699	179	17	780	3,766	3,993	1,239	600
New Zealand	3,895	17	967	630	29	264	1,839	-
Norway	-	-	-	287	118	510	660	200
Poland	62	338	240	734	642	1,516	495	3.500
Portugal	1,092	1,002	2,217	422	1.123	2.343	3.824	3.500
Spain	228	-	1,491	2,561	1,390	2,215	1.877	11,500
Sweden	-	-	378	252	2,313	852	785	1,100
Switzerland	-	-	-	-	-	-	-	-
Turkey	486	224	423	546	412	515	292	4,100
United Kingdom	12,906	21,825	604	8,523	1,341	6,691	6,695	3,300
United States	-	-	-	-	-	-	-	-
OECD total	24,729	37,770	17,204	49,032	42,171	52,162	68,449	69,600
Global total	29,808	48,183	37,049	73,008	60,282	77,220	87,929	99,600

Notes: Totals may not add due to rounding; 1996 data are preliminary, 1997 data are estimates.
Source: OECD 1997, table 1.

It is clear from the table that UK is considered one of the countries that adopted the biggest privatization program. The total receipts of this program has been estimated by $ 62 billion within 7 years (1990 – 1997).

IV- Evaluation of Privatization Programs:

Privatization programs affect many economic variables such as profitability, productivity, employment, investment, income and wealth distribution and others. Therefore, there is no one criterion that can be used alone in evaluating privatization programs. This is the case because some variables may be contradictive. For example, the profitability of the privatized projects may increase at a high rate. However, this increase may be due to the increase of prices as a result of monopolistic power of the enterprise. In this case, the consumer welfare may decrease because of prices increase without quality improvement. On the other hand, the increase of profitability may be due to reducing the wage rates and laying off a large number of employees. In this case the welfare of workers will decrease and their relative share in total income will deteriorate. Because of this, the use of one criterion in evaluating privatization programs may not give accurate results.

Studies use many criteria in evaluating privatization programs, some of them are:

A) Efficiency criteria, such as: profit rate, productivity, and operating efficiency which refers to the ratio of operating cost to sales.

B) Employment criteria, such as: employment size, training ratio, and wage rate.

C) Price index.

D) Tax receipts from the privatized units.

E) Growth rate of market value of shares.

F) Relative share of employees in value added (income distribution).

Different studies gave different results concerning the performance of privatized enterprises. Some studies showed that privatization didn't affect the performance of privatized units significantly, especially in the developed countries. Other studies concluded that privatization improved the performance of privatized enterprises in both developed and developing countries. Also, some studies ended at the result that privatization was accompanied by a deterioration of performance.

We conclude, it is not sure that privatization must improve the performance of the privatized enterprises. Some

conditions must prevail before this can happen. Some of these conditions are:

1) Prevailing of transparency when assessing the values of assets subjected to privatization.

2) Stimulating competition between all units working in the market in order to urge them to improve their efficiency.

3) Getting guarantee from the new owners to give employees their rights, to invest in expanding the capacity of their units, and to renew machines and equipments.

4) Giving sufficient compensation to the employees who have been affected adversely by privatization.

5) Protecting the consumers from the negative effects of monopoly in the private sector.

However, most studies showed that privatization resulted in negative social effects in the transition economies such as former Soviet Union and the other socialist countries.

Industrial employment in Bulgaria fell by 31.3% between December 1989 – December 1991, and employment in privatized firms fell from 4 million to 1 million by 75%.

In the East Germany, the numbers in employment fell from 9 million before transition to 6.3 million by the end of 1992 by 30%. The numbers employed in enterprises under the privatization agency, fell from 4.1 million to 1.2 million during that period[5] by 70%.

In viet name, the wages of civil servants and state enterprise employees declined by 60% from 1985 to 1991. The average wages and salaries in Polland fell by 27% between 1989-1992, opening up inequalities in income.

During the period 1993 – 1995 ownership of around 14000 enterprises in Russian Federation was transferred under the voucher program. These vouchers were distributed on people free. The nominal value of each voucher was 10000 roubles.

According to these vouchers, people become stockholders in the privatized enterprises. However, these enterprises never distributed profits on the voucher holders. Therefore, there was no difference between one holding a voucher of 10000 roubles and another holding a voucher of 100000 roubles, just because the return of both is zero. The result was that many people rushed to sell their vouchers, and this led to a dramatric drop in their market values. At

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[5] Martin, B, op. Cit, PP. 14-18.

the end, all vouchers had been concentrated in the hands of few rich men. Because of this, the privatization redistributed the wealth in favor of the rich and against the poor.

V- Privatization Program in Egypt:

The number of companies in the public business sector of Egypt was 399 in June 1991, 116 of them were industrial firms.[6] Privatization program started according to the law of 203 in 1991. Seventeen holding companies have been established and 314 public enterprises were distributed between them. Each holding company was given the authority to privatize the public enterprises assigned to it.[7]

Table (7-2) shows the number of privatized enterprises in Egypt until June 2002.

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[6] Abdel-Rahman, Helmy & Abu Ali, Sultan, "Role of the public and private sectors with special reference of privatization: The case of Egypt", Privatization and Structural Adjustment in the Arab Countries, IMF, 1989, P. 156.

[7] Privatization, htt://www.tiiaegypt.com/news/main-privatization.htm, P. 1.

Table (7-2)

Number of privatized enterprises in Egypt according to the way of selling until June 2002

Method of selling	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Total
Majority public offering	0	0	1	14	14	8	0	1	0	0	38
Minority public offering	0	1	6	6	2	1	0	0	0	0	16
Anchor investor	0	3	0	3	3	2	9	5	4	0	29
Employee shareholder association	0	7	3	0	3	12	5	0	2	2	34
Liquidation	6	2	2	1	3	6	7	3	2	0	32
Asset sales	0	0	0	1	1	3	4	6	3	3	21
Leasing	0	0	0	0	2	0	6	10	2	0	20
Total	6	13	12	25	28	32	31	25	13	5	190

* Monthly economic bulletin of international trade, Feb. 2003.

It is clear from the table that the number of privatized enterprises in Egypt reached 190 until June 2002. this number represented 60% of the total number of public units planned to be privatized. And most of privatization selling took place during the period 1996-2000.

Table (7-3) illustrates the distribution of privatization receipts according to privatization methods during the period (1993-2002).

Table (7-3)

Distribution of privatization receipts in Egypt according to method of privatization (1993 – 2002)

Method of privatization	Total receipts (LE. Million)	%
Public offering	8068	47.7%
Anchor investor	6980	41.3%
Employee association	951	5.6%
Asset sales	908	5.4%
Total	16907	100%

Ibid.

It is clear from table (7-3) that the highest percentage of privatization receipts has been achieved through public offering. This method represented 47.4% of the total. The second method was anchor investor which represented 41.3% of the total. The other two methods represented 11%.

The total receipts of privatization in Egypt reached LE 17 Billion ($ 2.7 billion) approximately. According to this, the average receipt per project is LE 89.5 Million.

According to the available data, the average investment cost per BOT medium-size project in Egypt was estimated at $ 250 million.[8] This means that the total receipts of 190 privatized projects in Egypt suffice to establish 11 medium – size BOT project.

Table (7-4) shows the distribution of privatization receipts in Egypt according to their uses.

[8] CARANA, privatization in Egypt, Quarterly Review, Jan. – March, 2002, P. 4.

Table (7-4)
Distribution of privatization receipts in Egypt according to their uses (1993-2002)

Uses	%
Ministry of Finance	45%
Bank debts settlement	31%
Early retirement pensions & salaries	18%
Restructuring	4%
Balance	2%
Total	100%

* Privatization, op.cit, P. 3.

It is clear that 45% of privatization receipts had been delivered to the finance ministry in order to be used in covering government budget deficit, and 31% had been used in settling bank debts of privatized enterprises. 18% of the receipts had been used to compensate employees inversely affected by the program. 4% only had been used in rehabilitating privatized companies.

Table (7-5) exhibits annual average growth rates of share price for 58 privatized companies, from first offering date to end of quarter.

Table (7-5)

Stock market performance of privatized companies in Egypt

(Annual growth rate of share price)

Growth rates	Number of companies	%
3% : 5%	2	3.4%
0 : -10%	19	32.8%
-11% : -20%	12	20.7%
-21% : -30%	15	25.9%
-31% : -40%	7	12.0%
Lower than -40%	3	5.2%
Total	58	100%

* CARANA. op. cit. PP. 68-69. Derived by author.

Using the data of table (7-5) to evaluate the financial performance of privatized enterprises in Egypt, we find out that two companies only out of 58 achieved positive growth in their share price. The other enterprises had negative growth rates in their share prices, ranged between 1% to 51.5%. it is clear that 33% of the companies had negative growth rates less than 10% a year in their share prices and 58% of companies had negative growth rates ranged between 11% to 40%.

We conclude that the financial performance of the privatized enterprises in Egypt was bad.

One study evaluated the performance of the privatized enterprises that follow the Employee Shareholder

Association (ESA) according to some criteria shown in table (7-6).

Table (7-6)

ESA performance chart

Factor	Public Works	Rice Mills	Maritime/Inland Transport
Financial performance	Excellent	Fair	Poor/Fair
Success in making installment payments	Excellent	Poor	Poor/Poor
Sector competitiveness	Good	Excellent	Excellent/Excellent
Privatized company competitiveness	Good	Fair	Poor/Fair
Changes in corporate governance	Modest	None yet	None yet
New investments since privatization	Few	N/A	None/Few
Post-privatization restructuring	Limited	N/A	Limited/Limited
Impact on labor	Increased/stable employment Increased wages	N/A	N/A
Independence from the state	Good/increasing	Very limited	Limited/Limited
ESA governance	No problems reported	N/A	N/A

* CARANA, op.cit, P. 17

It is clear that the performance of the public works companies was the best of all. But the performance of Rice Mills and Maritime and Inland Transport companies was bad.

Chapter 8

E – Government

If the 1990s were the "Dot-Com Decade", the first decade of the 21st century may be seen as the "Dot-Gov Decade". There is a big tendency on the part of the governments, especially in the developed countries, to introduce information and services to the public through the internet. According to a study that has been undertaken on a sample of US officials, 93% of the government departments that they represented had web sites.(1)

On the other hand, global online population are increasing over time at a relatively high rate, as shown in table (8-1).

Table (8-1)

Global Online Population

Online	August '00	August '01	% change +/-
World Total	408 mil	514 mil	+ 20
Africa	3.2 mil	4.2 mil	+ 24
Asia / Pacific	105 mil	143 mil	+ 28
Europe	114 mil	154 mil	+ 26
Middle East	2.5 mil	4.7 mil	+ 47
Canada / USA	168 mil	181 mil	+ 8
Latin America	17 mil	25 mil	+ 32

Source: UN (DPEPA) & US (ASPA), Benchmarking E-government: A Global perspective, Assessing the progress of the UN member states, May 002, P. 23.

(1) Hart-Teater, the council for excellence in government, e-government: the next American revolution, Sep 2000. http://www.excelgov.org/egovpoll//report/contenys.htm.

It is clear from the table that global online population increased in one year from 408 million to 512 million by 20%. However, 65% of global online population are concentrated in Europe, US, and Canada.

This chapter deals with some basic points related to e-government:

1- Definition of e-government.
2- E-government information and services.
3- Stages of e-government.
4- Advantages of e-government.
5- Measurement of e-government.
6- Classification of e-governments.
7- Effect of e-trade on the traditional economic role of government.

I- Definition of E - Government:

There are many definitions of e-government. Some of them are:

- "E-government is all about government agencies working together to use technology so that they can better provide individuals and businesses with government services and information".[2]

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[2] http:// www.e-government.govt.nz/programme/faqs.asp, P.2.

- "Utilizing the internet and the world-wide-web for delivering government information and services to citizens".[3]
- "E-government is the use of information and communication technology (ICT) to promote more efficient and effective government, facilitate more accessible government services, allow greater public access to information, and, make government more accountable to citizens. E-government might involve delivering services via the internet, telephone, wireless devices or other communications systems".[4]

According to the previous definitions we can conclude the basic elements of e-government as follows:

(1) E-government introduces government information and services to the public and businesses via internet.

(2) E-government intensifies the utilization of trained and skilled labor and ICT in introducing government information and services to the public, and reduces the use of unskilled labor and paper works.

(3) It is not necessary that e-government units are owned by government. The government can contract with some

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[3] UN (DPEPA) & US (ASPA), op.cit, P. 1.

[4] Pacific council on international policy, Roadmap for E-government leaders should ask themselves, April 2002, P. 1.

private units to deliver some services via the internet to the public. However, the responsibility of offering these services remains of the government.

(4) E-government does not mean just computerization. Adding computers or modems to government offices is not a sufficient condition to have e-government. But the important thing is the use of computers and communication technology in facilitating delivering services to the public.

(5) Any government is not considered e-government unless it surpasses the traditional government in delivering services. It must be more capable of introducing better quality and lower cost services in a shorter time.

(6) E-government is not synonymous to economic and social development, or clean and efficient government. In order to achieve these goals, it must adopt a comprehensive reform program. That is to say, e-government must be accompanied by political will to change.

(7) The existence of the wish to have e-government is not enough to build one. There must be a minimum level of capabilities in order to have e-government. There must

be a capable communication net, trained high skilled staff, and internet population.

(8) One of the e-government goals is to increase the trust of the public in the government. But for this to be achieved, government must apply some conditions:

i) Credibility: the government must have the capability to fulfil it's promises to the public.

ii) Privacy: there is a fear that the private information collected by e-government about people be misused in a way to harm their interests. Therefore, there must be a law that protetts the privacy.

iii) Security: there is a fear from the hackers to get financial information about the clients and use them in stealing their deposits: or they may block the government web sites and delay delivering government information and services. Therefore, there is a need to achieve a high degree of information security using what is known as firewalls.

II-E Government Information and Services:

Not all kinds of government information and services can be delivered via internet. There are some secret information related to the state security that cann't be exhibited on the screen. Also, there are some services that need to be delivered to the person himself such as a surgery in a government hospital, a driving license for the first time, subsidized goods from the government distribution centers and others.

The government information and services that can be delivered via internet are as follows:

II-1 E-government information:

- Telephone and fax numbers of different government institutions and departments.
- Addresses of government institutions and offices for those who want to visit them.
- E-mails of key officials in different government institutions.
- Conditions and documents required from the applicant to get a license, a job, or a prize.
- Public health information.

- Information about harms of drugs and ways of protection and cure
- Information about legislations.

II-2 E-government services:

- To renew a driving license.
- To get a birth certificate.
- To get a death certificate.
- To send complaints or suggestions.
- To apply for a governmental job.
- To reserve in a public hotel.
- To change your address.
- To register for migration.
- To look for or to enquire about stolen or missed things.
- To buy government stamps.
- To download government publications.
- To search for and download governmental data.
- To get government application forms.
- To apply for hunting license and fishing license.
- To register for conference attendance.
- To get a visa.
- To have a passport.
- To pay utilities bills.

III- Stages of E-Government:

E-governments differ in efficiency according to the stages they pass through. We can differentiate between five stages:

1- Emerging e-government.
2- Enhanced e-government.
3- Interactive e-government.
4- Transactional e-government.
5- Seamless (fully integrated) e-government.

We shed the light on every one of them as follows:

III-1 Emerging e-government:

In this stage the government has a limited official presence on the web. It provides the public with static general information which are net updated in short time, such as: telephone numbers and addresses of some government institutions. Most of the countries that pass through this stage are least developing countries such as: Niger, Togo, Senegal, Mali, Angola, Chad and others.

III-2 Enhanced e-government:

This stage is characterized by the increasing official presence on the web within short periods. The contents of the electronic sites are more dynamic. i.e. they are updated

in short times. The information exhibited on the sites may be more specialized such as health information. Search for specific subjects may be possible. Most of the countries in this stage are developing countries of average income such as: Cuba, Algeria, Albania, Iran, Uganda, Oman, and Nigeria.

III-3 Interactive e-government:

Information flow in the case of the two previous stages is in one direction, from government to the public. But under the interactive e-government information flow takes place in two directions from government to the public and from the public to government. People can send complaints and suggestions to the government officials via the e-mail and get the reply. Also, government exhibits some subjects in it's sites and ask the online population to vote on these subjects. Besides, people can get some application forms from government sites, fill them, and send them again to the concerned offices.

The official presence of the government on the web is expanding quickly during this stage. Some governments have single portal that contains all governmental sites. Table (8-2) shows the addresses of the single entry portals for some e-governments.

Table (8-2)

Single entry portals

Several excellent examples

Australia	www.fed.gov.au/ksp
Brazil	www.redegoverno.gov.br
Canada	www.canada.gc.ca
Finland	www.eduskunta.fi
France	www.service-public.fr
Germany	www.bundesregierung.de
Ireland	www.irlgov.ie
Mexico	www.precisa.gob.mx
New Zealand	www.govt.nz
Norway	www.norge.no
Rep. Of Korea	www.kois.go.kr
Singapore	www.gov.sg
Spain	www.la-moncloa.es
United Kingdom	www.ukonline.gov.uk
United States	www.firstgov.gov

UN (DPEPA) & US (ASPA), op. cit, P. 18

There is a mix of developing and developed countries in this stage, such as: Argentina, China, Denmark, Japan, Saudi Arabia, Egypt, Turkey, and others.

III-4 Transactional e-government:

It refers to the stage in which the public can buy e-government services and pay for them or get them free via internet. People can get a visa, have a new passport, renew driving license, pay utilities bills and others through internet. Examples of the countries that exist in this stage: Australia, Brazil, Canada, France, Germany, Mexico, US, Spain, and UK.

III-5 Fully-integrated e-government:

in this stage, there is a full integration between all government ministries, institutions, and departments at all levels, low and high. In the case of services that need the cooperation of more than one institution, communications between the concerned units take place electronically without the interference of the clients. No county has reached to this stage yet.

Table (8-3) shows the frequency distribution of UN e-governments according to the stage.

Table (8-3)

Frequency distribution of UN e-governments according to the stage (2001)

E-Government stage	Percentage
Non e-governments	10%
Emerging e-governments	16.8 %
Enhanced e-government	34.2 %
Interactive e-government	30.0 %
Transactional e-governments	9.0 %
Fully-integrated e-governments	0.0 %
Total	100% (190 countries)

UN (DPEPA) & US (ASPA) op.cit. P. 2.

IV- Advantages of E-Government:

There are many advantages that can be reaped from the adoption of e-government option. Some of these are:

1) Offering government services at a lower cost, better quality, in a shorter time.

2) Increasing the degree of transparency and reducing the managerial corruption level.In dealing with the internet, the individual turns to be a number. He cann't misuse his economic, political, or social authority in getting advantages he doesn't deserve.

One successful experience of combating corruption is that of Mexico.

"Mexico's federal government established compranet for government procurement as part of its efforts to curb corruption by automating procurement procedures. By facilitating a process of bidding and reverse bidding online, it seeks to make government purchasing more efficient and transparent. The system allows the public to see what services and products the government is spending its resources on, and what companies are providing them with these services. There are more than 6,000 public sector tenders logged daily, and more than 22,000 service-

providing firms are regular users. Other countries in the region are looking to imitate Mexico's successful compranet."[5]

3) Giving the public more opportunity to participate in the rule. This can take place through offering some subjects for voting, and taking the opinion of the voters into consideration when taking decisions. One of the successful experiences in this context is that of South Africa.

"In South Africa, the government established a process through which the public can comment on draft legislation. Green papers, draft laws and regulations are posted on government web sites. People can review policy proposals and documents online and submit comments, even before a policy issue reaches the Green Paper stage. This kind of participation allows people to contribute directly to public policymaking. Those interested in seeing South Africa's online consultation process can visit www.gov.za."[6]

4) Transferring the e-government services to the isolated rural areas. A successful experience in this context is that of Brazil.

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[5] Pacific council on international policy, op. Cit., P. 10.
[6] Pacific council ....., op. Cit, P. 25.

"Brazil's Bahia State offers an example of bringing e-government services to communities without access to ICT. Bahia created mobile service centers (trucks equipped with computers) that travel to rural areas to deliver services to more than 400 communities in the State. These mobile units have access to computer networks and databases enabling them to issue ID cards, birth certificates and labor ID cards. Mobile health units use a similar approach bringing health services, information and electronic records for patients to the State's 100 poorest communities. Over five million people have received services to date."[7]

5) Encouraging business sector to participate in development through easing the government procedures, and shortening the time of communication with the input providers and output purchasers.

V- Measurement of E-Government:

The measure of e-government is important to determine the rate of progress in it's level over time, to compare it's level with other countries levels, and to estimate it's relationship with other factors which affect it and affected by it. One of the measures of e-government is known as: "E-government index". It measures what we call

[7] Pacific council, ibid, P. 15.

"E-government environment." It is derived from three subindicators:[8]

1) Official web presence measure.
2) Communications infrastructure measure, and
3) Human capital measure.

These submeasures are explained in the following:

1) Web presence measure: It refers to a country's online stage of e-government represented in the number of web sites, and the features of the sites.
2) Telecommunications infrastructure measure: It compares six primary indicators which define a country's ICT infrastructure capacity. The sources for the statistics are the 2001 international telecommunications Union report and the 2001 UNDP Human Development report. They are:

- **PCs per 100 individuals**: for now, PC,s are the primary device for accessing the internet until access becomes universally available through other mediums like television: this statistic is fundamental in quantifying a country's capacity to deliver online service.

(8) UN (DPEPA) & US (ASPA), op. Cit, PP. 3, 25-27.

- **Internet hosts per 10,000 individs:** measures internet penetration. Obviously, the greater the number of internet hosts and service providers, the greater the opportunity for citizen access.
- **Percentage of nation's population online:** Estimates how many citizens are using the web. The source for these figures is **www.nua.com.ie**, the only organization that provides statistics for nearly every UN member State.
- **Telephone lines per 100 individs:** Which is basic infrastructure measure. The greater the number of telephone lines the likelihood increases for access.
- **Mobile phones per 100 individs:** Indicates a country's potential for wireless capacity. Wireless connectivity is extremely important in many developing countries. This could play an important role in the near future, as mobile access becomes more comprehensive.
- **Televisions per 1000:** This indicator was included to assess the prospects of web TV. Cable and satellite TV potentially offer the highest rate of access of any hardware device.

Having the education, freedom and desire to access information is critical to e-government's efficacy.

Presumably, the higher the human development the more likely citizens will be inclined to accept and use e-government services.

Having the technical means to access relevant and timely information and services is a critical factor addressed in the web presence and infrastructure measures.

3) Human capital measure:

It attempts to capture a country's and its citizens' facility, opportunity and willingness to use online government. It includes 3 indices:

- The UNDP Human Development index which measures a society's well being, including level of education, economic viability and healthcare.
- The information access index which draws on two annual surveys from transparency international (www.trasparency.org) and freedomhouse international (www.freedomhouse.org).

Quantifying a country's citizen interaction with government is a challenge. Both organizations produce annual surveys that measures key democratic components which contribute to accessing and disseminating information and monitor a countries public sector for corruption. The information access index combines the two annual indicators and converts them to a percentage.

- Urban / rural population ratio which gives an indication of internet service patterns and how access may be prioritized. Countries with a greater percentage of its inhabitants in rural areas may find bringing service to its population a greater challenge.

The e-government index is a mean figure derived from the web presence, telecommunications infrastructure, and human capital measures. Since multiple indices contribute to the infrastructure and the human capital measures, a composite variable was complied. Because of the considerable differences in a number pf the ICT indices, a weighted composite variable for the infrastructure measure was computed. The unabridged tables for each region are available on the UN's public administration website **(www.unpan.org)**.

VI- Classification of Global E-Governments:

The average of e-government indices on the international level is used to classify the e-governments to groups. In 2001 this average was estimated at 1.62. According to this average, the e-governments have been classified to 4 groups, as shown in table (8-4).

Table (8-4)
Classification of e-government according to the average value of e-government index (2001)

N	Groups	Index range
1	High E-gov. capacity	2 – 3.25
2	Medium E-gov. capacity	1.60 – 1.99
3	Minimal E-gov. capacity	1.00 – 1.59
4	Deficient E-gov. capacity	Less than one

* Un (DPEPA) & US (ASPA) op. Cit, P. 7

Using the classification in table (8-4), US was considered the global leader in the field of e-government. The value of it's index was 3.11 in 2001, and it was the only country whose index exceeded 3. Uganda has been classified as the last country in this context, and it's index was 0.46.

Table (8-5) shows the regional classification of e-governments.

Table (8-5)

Regional classification of e-governments according to the level

Region	Average value of index	The level of the region	The leading country in the region	e-gov. index of the leader
North America	2.6	High capacity	US	3.11
Australia	2.6	High capacity	Australia	2.6
Europe	2.01	High capacity	Norway	2.55
South America	1.79	Medium capacity	Brazil	2.24
Middle East	1.76	Medium capacity	Israel	2.26
Asia	1.38	Minimal capacity	United Arab Emirates	2.17
Caribbean	1.34	Minimal capacity	The Bahamas	1.79
Africa	0.84	Deficient capacity	Egypt	1.73

UN (DPEPA), US (ASPA), op. cit, P. 3.

North America led by US is considered the leading region in the field of e-government, while Africa is classified as deficient in this context. Egypt is the leading country in Africa in e-government, with a medium capacity.

United Arab Emirates is the leading country in the Arab world, with a high capacity.

VII- Effect of E-Trade on the Economic Role of Traditional Government:

The traditional government uses economic policies such as: fiscal policy and monetary policy in order to achieve some macro goals such as: reducing unemployment, controlling inflation, expediting economic growth, encouraging exports and others.

It is expected that e-trade will reduce the effectiveness of economic policies in achieving the macro goals. Some reasons to this are:

1) It is possible for consumers and business units to buy or sell goods and services via the internet without passing through airport or seaports, such as: books, computer programs, films, music CD's, lectures, medical, legal, and financial consultations, feasibility studies and others. When these flows grow in size, the government receipts in forms of tariffs and sales tax will decrease. And this may result in a higher budget deficit and a higher inflation rate, or a reduction in the subsidies directed to the social purposes. That is to say, it reduces the effectiveness of economic policies in achieving macro targets.

2) E-trade contains exports and imports that take place outside government authority. Therefore, there will be inflows and outflows of foreign exchange that cann't be controlled by the authorities. And this may reduce the effectiveness of trade policies and exchange rate policies that aim at achieving stability of foreign exchange rate.

   If the e-imports are larger than e-exports this will fuel balance of payments deficit. And as a result will cause a devaluation of domestic currency. Such effects may lead to more inflation.

3) People and business enterprises use e-money to settle their transactions. Since the e-money movements across borders take place out the authority control this may reduce the effectiveness of the monetary policy in achieving it's goals.